KROGER CO
Form 4
May 11, 2017

FORM 4

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
DONNELLY MICHAEL JOSEPH

(Last) (First) (Middle)

THE KROGER CO., 1014 VINE STREET

(Street)

CINCINNATI, OH 45202

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
KROGER CO [KR]

3. Date of Earliest Transaction (Month/Day/Year)
05/10/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/10/2017		M		17,600	A	$ 14.305	249,207.748	D	
Common Stock	05/10/2017		S (1)		17,600	D	$ 30.01	231,607.748 (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amoun Underlying Securit (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amo or Num of Sh
Non-Qualified Stock Option	$ 14.305	05/10/2017		M			17,600	(3)	06/26/2018	Common Stock	17,6

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DONNELLY MICHAEL JOSEPH THE KROGER CO. 1014 VINE STREET CINCINNATI, OH 45202			Executive Vice President	

Signatures

/s/ Michael J. Donnelly, by Stacey M. Heiser, Attorney-in-Fact	05/11/2017
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The sale reported in this Form 4 was effected pursuant to a Rule 10b5-1 trading plan adopted by the reporting person on March 21, 2017.

(2) The total amount of securities directly owned by the reporting person includes shares in the Company's employee benefit plans that are deemed to be 'tax-conditioned plans' pursuant to Rule 16b-3, to the extent disclosed on reports received from plan trustees.

(3) These options were granted under a long-term incentive plan of The Kroger Co. and vest in equal annual installments in whole amounts over a five-year period, at the rate of 20% per year commencing one year from the date of the grant.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ny has five operating segments, as follows:

- Student Loan and Guaranty Servicing
- Tuition Payment Processing and Campus Commerce
- Enrollment Services
- Software and Technical Services
- Asset Generation and Management

See note 22 for additional information on the Company's segment reporting.

Fee-Based Operating Segments

Student Loan and Guaranty Servicing

The Company's Student Loan and Guaranty Servicing operating segment provides for the servicing of it's student loan portfolio and the portfolios of third parties and servicing provided to guaranty agencies. The loan servicing activities include loan origination activities, loan conversion activities, application processing, borrower updates, payment processing, due diligence procedures, and claim processing. These activities are performed internally for the Company's portfolio in addition to generating fee revenue when performed for third-party clients. The guaranty servicing activities include providing software and data center services, borrower and loan updates, default aversion tracking services, claim processing services, and post-default collection services to guaranty agencies.

Tuition Payment Processing and Campus Commerce

The Company's Tuition Payment Processing and Campus Commerce operating segment provides products and services to help institutions and education-seeking families manage the payment of education costs during the pre-college and college stages of the education life cycle. The Company provides actively managed tuition payment solutions, online payment processing, detailed information reporting, financial needs analysis, and data integration services to K-12 and higher educational institutions, families, and students. In addition, the Company provides customer-focused electronic transactions, information sharing, and account and bill presentment to colleges and universities.

Enrollment Services

The Company's Enrollment Services operating segment offers products and services that are focused on helping colleges recruit and retain students (lead generation and recruitment services) and helping students plan and prepare for life after high school (content management and publishing and editing services). Lead generation products and services include vendor lead management services and admissions lead generation. Recruitment services include pay per click marketing management, email marketing, list marketing services, and admissions consulting. Content management products and services include online courses and related services. Publishing and editing services include test preparation study guides and essay and resume editing services.

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Software and Technical Services

The Company's Software and Technical Services operating segment develops student loan servicing software, which is used internally by the Company and also licensed to third-party student loan holders and servicers. This segment also provides information technology products and services, with core areas of business in educational loan software solutions, legacy modernization, technical consulting services, and Enterprise Content Management solutions.

Asset Generation and Management Operating Segment

The Company's Asset Generation and Management operating segment includes the origination, acquisition, management, and ownership of the Company's student loan assets. The Company generates a substantial portion of its earnings from the spread, referred to as the Company's student loan spread, between the yield it receives on its student loan portfolio and the costs associated with originating, acquiring, and financing its portfolio. The Company generates student loan assets through direct origination or through acquisitions. Student loan assets include loans originated under the Federal Family Education Loan Program ("FFELP" or "FFEL Program"), including the Stafford Loan Program, the PLUS Loan program, the Supplemental Loans for Students ("SLS") program, and loans that consolidate certain borrower obligations ("Consolidation").

2. Discontinued Operations

On May 25, 2007, the Company sold EDULINX Canada Corporation ("EDULINX"), a Canadian student loan service provider and a subsidiary of the Company, for initial proceeds of $19.0 million. The Company recognized an initial net loss of $8.3 million related to this transaction. During 2008, the Company earned $2.0 million in additional consideration as a result of the sale of EDULINX. This payment represented contingent consideration earned by the Company based on EDULINX meeting certain performance measures. As a result of the sale of EDULINX, the results of operations for EDULINX, including the contingent payment earned in 2008, are reported as discontinued operations in the accompanying consolidated statements of income.

The components of income (loss) from discontinued operations are presented below for the years ended December 31, 2009, 2008, and 2007.

	2009	2008	2007
Operating income of discontinued operations	$—	—	9,278
Income tax on operations	—	—	(3,562)
Gain (loss) on disposal	—	1,966	(8,316)
Income tax (expense) benefit on disposal	—	(148)	25
Income (loss) from discontinued operations, net of tax	$—	1,818	(2,575)

The following operations of EDULINX have been segregated from continuing operations and reported as discontinued operations through the date of disposition. Interest expense was not allocated to EDULINX and, therefore, all of the Company's interest expense is included within continuing operations.

2007

Net interest income	$124
Other income	31,511
Operating expenses	(22,357)
Income before income taxes	9,278
Income tax expense	3,562
Operating income of discontinued operations, net of tax	$5,716

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

3.Summary of Significant Accounting Policies and Practices

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company's education lending subsidiaries are engaged in the securitization of education finance assets. These education lending subsidiaries hold beneficial interests in eligible loans, subject to creditors with specific interests. The liabilities of the Company's education lending subsidiaries are not the direct obligations of Nelnet, Inc. or any of its other subsidiaries. Each education lending subsidiary is structured to be bankruptcy remote, meaning that they should not be consolidated in the event of bankruptcy of the parent company or any other subsidiary. For accounting purposes, the transfers of student loans to the eligible lender trusts do not qualify as sales, as the trusts continue to be under the effective control of the Company. Accordingly, all the financial activities and related assets and liabilities, including debt, of the securitizations are reflected in the Company's consolidated financial statements.

Reclassifications

Certain amounts previously reported have been reclassified to conform to the current period presentation. The reclassifications were made to change the income statement presentation to provide the users of the financial statements additional information related to the operating results of the Company's fee-based businesses, which are becoming more significant to the Company's operations. These reclassifications include reclassifying "tuition payment processing and campus commerce revenue" and "enrollment services revenue," which were previously included in "other fee-based income." In addition, the "cost to provide enrollment services" was reclassified from various operating expense accounts, primarily "advertising and marketing."

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities, reported amounts of revenues and expenses, and other disclosures. Management has made significant estimates in several areas, including allowance for loan losses, the amortization of loan premiums, deferred origination costs, and borrower benefits, impairment assessment related to goodwill and intangible assets, income taxes, and the valuation of derivatives. Actual results could differ from those estimates.

Student Loans Receivable

Student loans consist of federally insured student loans, non-federally insured student loans, and student loan participations. If the Company has the ability and intent to hold loans for the foreseeable future, such loans are held for investment and carried at amortized cost. Amortized cost includes the unamortized premiums and capitalized origination costs and fees, all of which are amortized to interest income. Loans which are held-for-investment also have an allowance for loan loss as needed. Any loans the Company has the ability and intent to sell are classified as held for sale and are carried at the lower of cost or fair value. Loans which are held-for-sale do not have the associated premium and origination costs and fees amortized into interest income and there is also no related allowance for loan losses. As of December 31, 2009 and 2008, no loans were held for sale.

Federally insured loans may be made under the FFEL Program by certain lenders as defined by the Higher Education Act of 1965, as amended (the "Higher Education Act"). These loans, including related accrued interest, are guaranteed at their maximum level permitted under the Higher Education Act by an authorized guaranty agency, which has a contract of reinsurance with the U.S. Department of Education (the "Department"). The terms of the loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest over a period of up to 30 years. Interest rates on loans may be fixed or variable, dependent upon type, terms of loan agreements, and date of origination. For FFELP loans, the education lending subsidiaries have entered into trust agreements in which unrelated financial institutions serve as the eligible lender trustees. As eligible lender trustees, the financial institutions act as the eligible lender in acquiring certain eligible student loans as an accommodation to the subsidiaries, which hold beneficial interests in the student loan assets as the beneficiaries of such trusts.

Substantially all FFELP loan principal and related accrued interest is guaranteed as defined by the Higher Education Act. These guarantees are made subject to the performance of certain loan servicing procedures stipulated by applicable regulations. If these due diligence procedures are not met, affected student loans may not be covered by the guarantees should the borrower default. The Company and its education lending subsidiaries retain and enforce recourse provisions against servicers and lenders under certain circumstances. Such student loans are subject to "cure" procedures and reinstatement of the guaranty under certain circumstances.

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Student loans receivable also includes non-federally insured loans. The terms of the non-federally insured loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest over a period of up to 30 years. The non-federally insured loans are not covered by guarantees or collateral should the borrower default.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable losses on student loans. This evaluation process is subject to numerous estimates and judgments. The Company evaluates the adequacy of the allowance for loan losses on its federally insured loan portfolio separately from its non-federally insured loan portfolio.

The allowance for the federally insured loan portfolio is based on periodic evaluations of the Company's loan portfolios considering 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% of the principal of and the interest on federally insured student loans disbursed on and after July 1, 2006 (and 98% for those loans disbursed prior to July 1, 2006), which limits the Company's loss exposure on the outstanding balance of the Company's federally insured portfolio. Student loans disbursed prior to October 1, 1993 are fully insured.

Effective June 1, 2004, the Company was designated as an Exceptional Performer by the Department in recognition of its exceptional level of performance in servicing FFELP loans. As a result of this designation, the Company received 100% reimbursement on all eligible FFELP default claims submitted for reimbursement. On September 27, 2007, the President signed into law the College Cost Reduction and Access Act of 2007 (the "College Cost Reduction Act"). Among other things, this legislation eliminated all provisions relating to Exceptional Performer status, and the monetary benefit associated with it, effective October 1, 2007.

In determining the adequacy of the allowance for loan losses on the non-federally insured loans, the Company considers several factors including: loans in repayment versus those in a nonpaying status, delinquency status, type of program, and trends in defaults in the portfolio based on Company and industry data. The Company places a non-federally insured loan on nonaccrual status when the collection of principal and interest is 30 days past due and charges off the loan when the collection of principal and interest is 120 days past due.

The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be subject to significant changes. The provision for loan losses reflects the activity for the applicable period and provides an allowance at a level that the Company's management believes is adequate to cover probable losses inherent in the loan portfolio.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all investments with maturities when purchased of three months or less to be cash equivalents.

Restricted Cash and Investments

The Company's restricted investments are held by trustees in various accounts subject to use restrictions imposed by the trust indenture and consist of guaranteed investment contracts, which are classified as held-to-maturity. Due to the characteristics of the investments, there is no available or active market for this type of financial instrument. These investments are purchased at par value, which equals their cost as of December 31, 2009 and 2008. All restricted cash and investments held by the trustees are included on the consolidated balance sheets.

Restricted Cash – Due to Customers

As a servicer of student loans, the Company collects student loan remittances and subsequently disburses these remittances to the appropriate lending entities. In addition, the Company requests funding from lenders and subsequently disburses loan funds to borrowers and schools on behalf of borrowers. The Company also collects tuition payments and subsequently remits these payments to the appropriate schools. Cash collected for customers and the related liability are included in the accompanying consolidated balance sheets. Interest income earned, net of service charges, by the Company on this cash for the years ended December 31, 2008 and 2007 was $2.7 million and $8.7 million, respectively. Due to low interest rates, the Company earned minimal interest income, net of servicing charges, during 2009.

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Accounts Receivable

Accounts receivable are presented at their net realizable values, which includes allowances for doubtful accounts. Allowance estimates are based upon individual customer experience, as well as age of receivables and likelihood of collection.

Goodwill

The Company reviews goodwill for impairment annually (as of November 30) and whenever triggering events or changes in circumstances indicate its carrying value may not be recoverable. Goodwill is tested for impairment using a fair value approach at the reporting unit level. A reporting unit is the operating segment, or a business one level below that operating segment if discrete financial information is prepared and regularly reviewed by segment management. However, components are aggregated as a single reporting unit if they have similar economic characteristics. The Company performs a two-step impairment test on goodwill. In the first step, the Company compares the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then the Company would record an impairment loss equal to the difference.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. Actual future results may differ from those estimates.

Intangible Assets

Intangible assets with finite lives are amortized over their estimated lives. Such assets are amortized using a method of amortization that reflects the pattern in which the economic benefits of the intangible asset is consumed or otherwise used up. If that pattern cannot be reliably determined, the Company uses a straight-line amortization method.

The Company evaluates the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization.

Property and Equipment

Property and equipment are carried at cost, net of accumulated depreciation. Maintenance and repairs are charged to expense as incurred, and major improvements, including leasehold improvements, are capitalized. Gains and losses from the sale of property and equipment are included in determining net income. The Company uses accelerated and straight-line methods for recording depreciation and amortization. Accelerated methods are used for certain equipment and software when this method is believed to provide a better matching of income and expenses. Leasehold improvements are amortized over the lesser of their useful life or the related lease period.

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, such as property and equipment and purchased intangibles subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company uses estimates to determine the fair value of long-lived assets. Such estimates are generally based on estimated future cash flows or cost savings associated with particular assets and are discounted to a present value using an appropriate discount rate. The estimates of future cash flows associated with assets are generally prepared using a cost savings method, a lost income method, or an excess return method, as appropriate. In utilizing such methods, management must make certain assumptions about the amount and timing of estimated future cash flows and other economic benefits from the assets, the remaining economic useful life of the assets, and general economic factors concerning the selection of an appropriate discount rate. The Company may also use replacement cost or market comparison approaches to estimating fair value if such methods are determined to be more appropriate.

Assumptions and estimates about future values and remaining useful lives of the Company's intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Company's business strategy and internal forecasts. Although the Company believes the historical assumptions and estimates used are reasonable and appropriate, different assumptions and estimates could materially impact the reported financial results.

Other Assets

Other assets are recorded at cost or amortized cost and consist primarily of debt issuance costs, student list costs, and other miscellaneous assets. Debt issuance costs are amortized using the effective interest method.

Fair Value Measurements

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The Company determines fair value using valuation techniques which are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model's output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

The Company categorizes its fair value estimates based on a hierarchal framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels include:

- Level 1: Quoted prices for identical instruments in active markets. The types of financial instruments included in Level 1 are highly liquid instruments with quoted prices.

- Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose primary value drivers are observable.

- Level 3: Instruments whose primary value drivers are unobservable. Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs.

Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available for identical or similar instruments, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Revenue Recognition

Loan interest income – Loan interest is paid by the Department or the borrower, depending on the status of the loan at the time of the accrual. In addition, the Department makes quarterly interest subsidy payments on certain qualified FFELP loans until the student is required under the provisions of the Higher Education Act to begin repayment. Borrower repayment of FFELP loans normally begins within six months after completion of the loan holder's course of study, leaving school, or ceasing to carry at least one-half the normal full-time academic load, as determined by the educational institution. Borrower repayment of PLUS and Consolidation loans normally begins within 60 days from the date of loan disbursement. Borrower repayment of non-federally insured loans typically begins six months following a borrower's graduation from a qualified institution and the interest is either paid by the borrower or capitalized annually or at repayment.

The Department provides a special allowance to lenders participating in the FFEL Program. The special allowance is accrued based upon the fiscal quarter average rate of 13-week Treasury Bill auctions (for loans originated prior to January 1, 2000) or the fiscal quarter average rate of daily H15 financial commercial paper rates (for loans originated on and after January 1, 2000) relative to the yield of the student loan.

The Company recognizes student loan income as earned, net of amortization of loan premiums and deferred origination costs. Loan income is recognized based upon the expected yield of the loan after giving effect to borrower utilization of incentives such as timely payments ("borrower benefits") and other yield adjustments. Loan premiums, deferred origination costs, and borrower benefits are amortized over the estimated life of the loan, which includes an estimate of prepayment speeds. The Company periodically evaluates the assumptions used to estimate the life of the loans and prepayment speeds.

The Company also pays the Department an annual 105 basis point rebate fee on Consolidation loans. These rebate fees are netted against loan interest income.

Loan and guaranty servicing revenue – Loan servicing fees are determined according to individual agreements with customers and are calculated based on the dollar value of loans, number of loans, or number of borrowers serviced for each customer. Guaranty servicing fees, generally, are calculated based on the number of loans serviced, volume of loans serviced, or amounts collected. Revenue is recognized when earned pursuant to applicable agreements, and when ultimate collection is assured.

Tuition payment processing and campus commerce revenue - Fees for payment management services are recognized over the period in which services are provided to customers.

Enrollment services revenue – Enrollment services revenue primarily consists of the following items:

- Lead generation – Revenue from lead generation is derived primarily from fees which are earned through the delivery of qualified leads or clicks. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. Delivery is deemed to have occurred at the time a qualified lead or click is delivered to the customer provided that no significant obligations remain. From time to time, the Company may agree to credit certain leads or clicks if they fail to meet the contractual or other guidelines of a particular client. The Company has established a sales reserve based on historical experience. To date, such credits have been immaterial and within management's expectations.

For a portion of its lead generation revenue, the Company has agreements with providers of online media or traffic ("Publishers") used in the generation of leads or clicks. The Company receives a fee from its customers and pays a fee to Publishers either on a cost per lead, cost per click, or cost per number of impressions basis. The Company is the primary obligor in the transaction. As a result, the fees paid by the Company's customers are recognized as revenue and the fees paid to its Publishers are included in "cost to provide enrollment services" in the Company's consolidated statements of income.

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

- Publishing and editing services - Revenue from the sale of print products and editing services is generally earned and recognized, net of estimated returns, upon shipment or delivery.

- Content management and recruitment services – Content management and recruitment services includes the sale of subscription and performance based products and services, as well as list sales. Revenues from sales of subscription and performance based products and services are recognized ratably over the term of the contract. Subscription and performance based revenues received or receivable in advance of the delivery of services is included in deferred revenue. Revenue from the sale of lists is generally earned and recognized, net of estimated returns, upon delivery.

Other income – Other income includes borrower late fee income, which is earned by the education lending subsidiaries and is recognized when payments are collected from the borrower.

Software services revenue – Software services revenue is determined from individual agreements with customers and includes license and maintenance fees associated with student loan software products. Income for contracts with customers that does not require significant production, modification, or customization of software is recognized when all the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, vendors fee is fixed and determinable, and collectability is probable. Payments made on maintenance and enhancement agreements for services to be performed in subsequent periods are deferred and recognized in revenue over the life of the agreements. Computer and software consulting services are recognized over the period in which services are provided to customers.

Derivative Accounting

The Company records derivative instruments at fair value on the consolidated balance sheet as either an asset or liability. The Company determines the fair value for its derivative contracts using either (i) pricing models that consider current market conditions and the contractual terms of the derivative contract or (ii) counterparty valuations. These factors include interest rates, time value, forward interest rate curve, and volatility factors, as well as foreign exchange rates. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. 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. Accordingly, changes in the fair value of derivative instruments are reported in current period earnings. Net settlements on derivatives are included in “derivative market value, foreign currency, and put option adjustments and derivative settlements, net” on the consolidated statements of income.

Foreign Currency

The Company’s foreign subsidiary, EDULINX, used the Canadian dollar as its functional currency. The assets and liabilities of EDULINX were translated to U.S. dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses were translated at the average exchange rate during the period. As discussed in note 2, the Company sold EDULINX in May 2007. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations. Prior to the sale of EDULINX, translation gains or losses were reflected in the consolidated financial statements as a component of accumulated other comprehensive income.

During 2006, the Company issued Euro-denominated bonds, which are included in “bonds and notes payable” on the consolidated balance sheets. Transaction gains and losses resulting from exchange rate changes when re-measuring these bonds to U.S. dollars at the balance sheet date are included in “derivative market value, foreign currency, and put option adjustments and derivative settlements, net” on the consolidated statements of income.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Income tax expense includes deferred tax expense, which represents the net change in the deferred tax asset or liability balance during the year, plus any change made in the valuation allowance, and current tax expense, which represents the amount of tax currently payable to or receivable from a tax authority plus amounts for expected tax deficiencies (including both tax and interest).

Subsequent Events

Management has evaluated subsequent events, and the impact on the reported results and disclosures through March 3, 2010, which is the date these financial statements were filed with the Securities and Exchange Commission ("SEC").

4. Recent Developments - Legislation

On February 26, 2009, the President introduced a fiscal year 2010 Federal budget proposal calling for the elimination of the FFEL Program and a recommendation that all new student loan originations be funded through the Federal Direct Loan Program. On September 17, 2009, the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility Act ("SAFRA"), which would eliminate the FFEL Program and require that, after July 1, 2010, all new federal student loans be made through the Federal Direct Loan Program. The Senate is expected to begin its consideration of similar student loan reform legislation sometime in 2010. In addition to the House-passed legislation, there are several other proposals for changes to the education financing framework that may be considered that would maintain a role for private lenders in the origination of federal student loans. These include a possible extension of ECASLA, which expires on July 1, 2010, and the Student Loan Community Proposal, a proposal endorsed by a cross-section of FFELP service providers (including the Company) as an alternative to the 100% federal direct lending proposal included in SAFRA.

Elimination of the FFEL Program would impact the Company's operations and profitability by, among other things, reducing the Company's interest revenues as a result of the inability to add new FFELP loans to the Company's portfolio and reducing guarantee and third-party FFELP servicing fees as a result of reduced FFELP loan servicing and origination volume. Additionally, the elimination of the FFEL Program could reduce education loan software licensing opportunities and related consulting fees received from lenders using the Company's software products and services. The fair value and/or ability to recover the Company's goodwill, intangible assets, and other long-lived assets related to these activities could be adversely affected if the FFEL Program is eliminated.

In June 2009, the Department of Education named the Company as one of four private sector companies awarded a servicing contract to service student loans. No later than August 2010, the Company expects to also begin servicing new loans originated under the Direct Loan Program. If legislation is passed mandating that all new student loan originations be funded through the Direct Loan Program, revenue from servicing loans under this contract will partially offset the loss of revenue if the FFEL Program is eliminated.

5. Restructuring Charges

Legislative Impact – 2007 Restructuring

On September 6, 2007, the Company announced a strategic initiative to create efficiencies and lower costs in advance of the enactment of the College Cost Reduction Act, which impacted the FFEL Program in which the Company participates. In anticipation of the federally driven cuts to the student loan programs, management initiated a variety of strategies to modify the Company's student loan business model, including lowering the cost of student loan acquisition, creating efficiencies in the Company's asset generation business, and decreasing operating expenses through a reduction in workforce and realignment of operating facilities. These strategies resulted in the net reduction of approximately 400 positions in the Company's overall work force. In addition, the Company simplified its operating structure to leverage its larger facilities and technology by closing five small origination offices and downsizing its presence in Indianapolis. Implementation of the plan began immediately and was completed as of December 31, 2007. As a result of these strategic decisions, the Company recorded a restructuring charge of $20.3 million in 2007 and income of $0.2 million in 2008 and an expense of $0.7 million in 2009 to recognize adjustments from initial estimates.

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Selected information relating to the restructuring charge and accrual follows:

	Employee termination benefits		Lease terminations		Write-down of property and equipment		Total
Restructuring costs recognized in 2007	$ 6,315	(a)	3,916	(b)	10,060	(c)	20,291
Write-down of assets to net realizable value	—		—		(10,060)		(10,060)
Adjustment from initial estimate of charges	(134)	(a)	(16)	(b)	—		(150)
Cash payments	(4,988)		(218)		—		(5,206)
Restructuring accrual as of December 31, 2007	1,193		3,682		—		4,875
Adjustment from initial estimate of charges	(191)	(a)	—		—		(191)
Cash payments	(1,002)		(791)		—		(1,793)
Restructuring accrual as of December 31, 2008	—		2,891		—		2,891
Adjustment from initial estimate of charges	—		692	(b)	—		692
Cash payments	—		(650)		—		(650)
Restructuring accrual as of December 31, 2009	$ —		2,933		—		2,933

(a) Employee termination benefits are included in “salaries and benefits” in the consolidated statements of income.

(b) Lease termination costs are included in “occupancy and communications” in the consolidated statements of income.

(c) Costs related to the write-down of assets are included in “impairment expense” in the consolidated statements of income.

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Selected information relating to the restructuring charge by operating segment and Corporate Activity and Overhead follows:

	Operating segment						
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Asset Generation and Management	Corporate Activity and Overhead	Total
Restructuring costs recognized in 2007	$1,840	—	929	58	2,654	14,810	20,291
Write-down of assets to net realizable value	—	—	—	—	(248)	(9,812)	(10,060)
Adjustment from initial estimate of charges	(95)	—	—	—	(25)	(30)	(150)
Cash payments	(1,276)	—	(848)	(58)	(2,003)	(1,021)	(5,206)
Restructuring accrual as of December 31, 2007	469	—	81	—	378	3,947	4,875
Adjustment from initial estimate of charges	(72)	—	(15)	—	(40)	(64)	(191)
Cash payments	(397)	—	(34)	—	(330)	(1,032)	(1,793)
Restructuring accrual as of December 31, 2008	—	—	32	—	8	2,851	2,891
Reclassification of initial estimate of charges	(692)	—	(32)	—	(8)	732	—
Adjustment from initial estimate of charges	692	—	—	—	—	—	692
Cash payments	—	—	—	—	—	(650)	(650)
Restructuring accrual as of December 31, 2009	$—	—	—	—	—	2,933	2,933

Capital Markets Impact

On January 23, 2008, the Company announced a plan to further reduce operating expenses related to its student loan origination and related businesses as a result of ongoing disruptions in the credit markets. Management developed a restructuring plan related to its asset generation and supporting businesses which reduced marketing, sales, service, and related support costs through a reduction in workforce of approximately 300 positions and realignment of certain operating facilities. Implementation of the plan began immediately and was completed as of June 30, 2008. As a result of these strategic decisions, the Company recorded a restructuring charge of $26.1 million in 2008 and an additional expense of approximately $12,000 in 2009 to recognize adjustments from initial estimates.

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Selected information relating to the restructuring charge and accrual follows:

	Employee termination benefits		Lease terminations		Write-down of assets		Total
Restructuring costs recognized in 2008	$ 5,865	(a)	1,398	(b)	18,834	(c)	26,097
Write-down of assets to net realizable value	—		—		(18,834)		(18,834)
Cash payments	(5,865)		(809)		—		(6,674)
Restructuring accrual as of December 31, 2008	—		589		—		589
Adjustment from initial estimate of charges	—		12	(b)	—		12
Cash payments	—		(250)		—		(250)
Restructuring accrual as of December 31, 2009	$ —		351		—		351

(a) Employee termination benefits are included in “salaries and benefits” in the consolidated statements of income.

(b) Lease termination costs are included in “occupancy and communications” in the consolidated statements of income.

(c) Costs related to the write-down of assets are included in “impairment expense” in the consolidated statements of income.

Selected information relating to the restructuring charge by operating segment and Corporate Activity and Overhead follows:

Operating segment						
Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Asset Generation and Management	Corporate Activity and Overhead	Total

Restructuring costs recognized in 2008	$5,906	—	297	510	11,235	8,149	26,097
Write-down of assets to net realizable value	(5,074)	—	—	—	(9,351)	(4,409)	(18,834)
Cash payments	(786)	—	(310)	(511)	(1,878)	(3,189)	(6,674)
Restructuring accrual as of December 31, 2008	46	—	(13)	(1)	6	551	589
Reclassification of initial estimate of charges	84	—	13	1	(6)	(92)	—
Adjustment from initial estimate of charges	(130)	—	—	—	—	142	12
Cash payments	—	—	—	—	—	(250)	(250)
Restructuring accrual as of December 31, 2009	$—	—	—	—	—	351	351

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Legislative Impact – 2009 Restructuring

On May 8, 2009, as a result of the continued challenges in the economy and the student loan industry, the Company adopted a plan to further streamline its operations by continuing to reduce its geographic footprint and consolidate servicing operations and related support services.

Management developed a restructuring plan that will result in lower costs and provide enhanced synergies through cross training, career development, and simplified communications. The Company will simplify its operating structure to leverage its larger facilities and technology by closing certain offices and downsizing its presence in certain geographic locations. Approximately 300 associates will be impacted by this restructuring plan. However, the majority of these functions will be relocated to the Company's Lincoln headquarters and Denver offices. Implementation of the plan began immediately and is expected to be substantially complete during the second quarter of 2010.

The Company estimates that the charge to earnings associated with this restructuring plan will total approximately $12.8 million, consisting of approximately $6.2 million in severance costs and approximately $6.6 million in contract terminations, of which $7.3 million was recognized in 2009, and $5.5 million is expected to be recognized in 2010. Selected information relating to the restructuring charge and accrual follows:

	Employee termination benefits	Lease terminations	Total
Restructuring costs recognized in 2009	$ 4,247 (a)	3,031 (b)	7,278
Cash payments	(898)	(605)	(1,503)
Restructuring accrual as of December 31, 2009	$ 3,349	2,426	5,775

(a) Employee termination benefits are included in "salaries and benefits" in the consolidated statements of income.
(b) Lease termination costs are included in "occupancy and communications" in the consolidated statements of income.

Selected information relating to the restructuring charge by operating segment and Corporate Activity and Overhead follows:

Operating segment						
Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Asset Generation and Management	Corporate Activity and Overhead	Total

Restructuring costs recognized in 2009	$5,402	—	—	936	—	940	7,278
Cash payments	(871)	—	—	(411)	—	(221)	(1,503)
Restructuring accrual as of December 31, 2009	$4,531	—	—	525	—	719	5,775

	Operating segment						
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Asset Generation and Management	Corporate Activity and Overhead	Total
Estimated total restructuring costs	$9,810	—	—	1,224	—	1,741	12,775
Restructuring costs recognized in 2009	(5,402)	—	—	(936)	—	(940)	(7,278)
Remaining restructuring costs expected to be recognized	$4,408	—	—	288	—	801	5,497

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

6. Intangible Assets and Goodwill

Intangible assets consist of the following as of December 31, 2009 and 2008:

	Weighted average remaining useful life as of December 31, 2009 (months)		2009	2008
Amortizable intangible assets:				
Customer relationships (net of accumulated amortization of $38,785 and $29,737, respectively)	97	$	40,991	50,623
Trade names (net of accumulated amortization of $9,101 and $5,478, respectively)	34		7,452	11,581
Covenants not to compete (net of accumulated amortization of $20,372 and $14,887, respectively)	8		3,229	8,735
Database and content (net of accumulated amortization of $7,701 and $5,447, repectively)	12		1,779	4,033
Computer software (net of accumulated amortization of $8,915 and $7,441, respectively)	13		87	1,561
Other	—		—	521
Total - amortizable intangible assets	80	$	53,538	77,054

The Company recorded amortization expense on its intangible assets of $22.2 million, $26.2 million, and $30.4 million, during the years ended December 31, 2009, 2008, and 2007, respectively. The Company will continue to amortize intangible assets over their remaining useful lives. As of December 31, 2009, the Company estimates it will record amortization expense as follows:

2010	$15,219
2011	9,746
2012	8,961
2013	6,143
2014	5,689
2015 and thereafter	7,780
	$53,538

The change in the carrying amount of goodwill by operating segment was as follows:

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Asset Generation and Management	Total
Balance as of December 31, 2007	$—	58,086	55,463	8,596	42,550	164,695
Additional contingent consideration paid	—	—	11,150	—	—	11,150
Impairment charge	—	—	—	—	(667)	(667)
Balance as of December 31, 2008	—	58,086	66,613	8,596	41,883	175,178
Impairment charge	—	—	(31,461)	—	—	(31,461)
Balance as of December 31, 2009	$—	58,086	35,152	8,596	41,883	143,717

On September 27, 2007, the President signed into law the College Cost Reduction Act. This legislation contained provision with significant implication for participants in the FFEL Program including reducing special allowance payments received by lenders, increasing origination fees paid by lenders, and eliminating the designation of Exceptional Performer status and the monetary benefit associated with it. As a result of this legislation and the student loan business model modifications the Company implemented as a result of these legislative changes (see note 5), the Company recorded an impairment charge of $49.5 million during 2007. This charge is included in “impairment expense” in the Company’s consolidated statements of income. Information related to the impairment charge follows:

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Asset	Operating segment		Impairment charge
Amortizable intangible assets:			
Covenants not to compete	Asset Generation and Management	$	13,581
Loan origination rights	Asset Generation and Management		11,555
Unamortizable intangible assets - trade names	Asset Generation and Management		2,907
Goodwill	Enrollment Services		11,401
Property and equipment	Asset Generation and Management		248
Property and equipment	Corporate Activity		9,812
Total impairment charge		$	49,504

As disclosed in note 5, as a result of the disruptions in the debt and secondary markets and the student loan business model modifications the Company implemented due to the disruptions, the Company recorded an impairment charge of $18.8 million during the first quarter of 2008. This charge is included in "impairment expense" in the Company's consolidated statements of income. Information related to the impairment charge follows:

Asset	Operating segment		Impairment charge
Amortizable intangible assets:			
Covenants not to compete	Student Loan and Guaranty Servicing	$	4,689
Covenants not to compete	Asset Generation and Management		336
Loan origination rights	Asset Generation and Management		8,336
Computer software	Asset Generation and Management		12
Goodwill	Asset Generation and Management		667
Property and equipment	Student Loan and Guaranty Servicing		385
Property and equipment	Corporate activities		4,409
Total impairment charge		$	18,834

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

The Company reviews goodwill for impairment annually. This annual review is completed by the Company as of November 30 of each year and whenever triggering events or changes in circumstances indicate its carrying value may not be recoverable. As a result of the 2009 annual test, the Company recorded an impairment charge of $31.5 million related to its list marketing business. The Company's list marketing business has been negatively affected by the economic recession and deterioration of the direct-to-consumer student loan market. In addition, during the fourth quarter of 2009, the Company recognized an impairment charge of $1.2 million on certain intangible assets related to its list marketing business. These charges are included in "impairment expense" in the Company's consolidated statements of income. Information related to the impairment charge follows:

Asset	Operating segment	Impairment charge
Amortizable intangible assets:		
Customer relationships	Enrollment Services	$ 584
Trade names	Enrollment Services	506
Covenants not to compete	Enrollment Services	21
Other	Enrollment Services	156
Goodwill	Enrollment Services	31,461
Total impairment charge		$ 32,728

With the exception of the Company's list marketing business as discussed previously, as of November 30, 2009, the fair value of each of the Company's reporting units exceeded the carrying value of the net assets assigned to that unit and the Company was not required to perform further testing for impairment.

7. Student Loans Receivable

Student loans receivable consisted of the following as of December 31, 2009 and 2008:

	2009	2008
Federally insured loans	$23,472,553	24,787,941
Non-federally insured loans	163,321	273,108
	23,635,874	25,061,049
Unamortized loan premiums and deferred origination costs	341,970	402,881
Allowance for loan losses – federally insured loans	(30,102)	(25,577)
Allowance for loan losses – non-federally insured loans	(20,785)	(25,345)
	$23,926,957	25,413,008
Allowance for federally insured loans as a percentage of such loans	0.13 %	0.10 %
Allowance for non-federally insured allowance as a percentage of such loans	12.73 %	9.28 %

Interest rates on loans may be fixed or variable, dependent upon type, terms of loan agreements, and date of origination. Interest rates on loans currently range from 1.9% to 12.0% (the weighted average rate was 4.8% and 5.1% as of December 31, 2009 and 2008, respectively).

The Company has provided for an allowance for loan losses related to its student loan portfolio. Activity in the allowance for loan losses for the years ended December 31, 2009, 2008, and 2007 is shown below:

	2009	2008	2007
Beginning balance	$50,922	45,592	26,003
Provision for loan losses	29,000	25,000	28,178
Loans charged off, net of recoveries	(18,715)	(18,920)	(7,418)
Sale of loans	(10,320)	(750)	(1,171)
Ending balance	$50,887	50,922	45,592

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

In September 2007, the Company recorded an expense of $15.7 million to increase the Company's allowance for loan losses related to an increase in risk share as a result of the elimination of the Exceptional Performer program.

Loan Sales

The activity included in "gain (loss) on sale of loans, net" in the accompanying consolidated statements of income for the years ended December 31, 2009, 2008, and 2007 is detailed below.

	2009	2008	2007
Department's Purchase Program (a)	$36,596	—	—
Private loan participations (b)	(695)	—	—
FFELP loan sales to related party (c)	(753)	(3,860)	—
FFELP loan sales to third parties (d)	—	(47,554)	3,597
Gain (loss) on sale of loans, net	$35,148	(51,414)	3,597

(a) The Company sold $2.1 billion (par value) of student loans to the Department under the Department's Loan Purchase Commitment Program. See note 8 for a description of this program.

(b) The Company participated $95.5 million of non-federally insured loans to third parties. Loans participated under these agreements have been accounted for by the Company as loan sales. Accordingly, the participation interests sold are not included on the Company's consolidated balance sheet. Per the terms of the servicing agreements, the Company's servicing operations are obligated to repurchase loans subject to the participation interests in the event such loans become 60 or 90 days delinquent. The activity in the accrual account during 2009 related to this repurchase obligation, which is included in "other liabilities" in the accompanying consolidated balance sheet, is detailed below.

Beginning balance	$—
Transfer from allowance for loan losses	9,800
Reserve for repurchase of delinquent loans (a)	800
Ending balance	$10,600

(a) The reserve for repurchase of loans is included in "other" under other operating expenses in the accompanying consolidated statements of income.

(c) As a result of the disruptions in the debt and secondary markets, the Company sold $76.4 million (par value) and $535.4 million (par value) of federally insured student loans to Union Bank & Trust Company ("Union Bank"), an entity under common control with the Company, during the years ended December 31, 2009 and 2008, respectively, in order to reduce the Company's exposure related to certain equity support provisions included in the Company's warehouse facility for FFELP loans.

(d) As a result of the disruptions in the debt and secondary markets, the Company sold $1.3 billion (par value) of federally insured student loans in order to reduce the amount of student loans remaining under the Company's warehouse facility for FFELP loans, which reduced the Company's exposure related to certain equity support provisions included in this facility.

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

8. Bonds and Notes Payable

The following tables summarize the Company's outstanding bonds and notes payable by type of instrument as of December 31, 2009 and 2008:

		2009		
		Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes (a):				
Bonds and notes based on indices	$	20,187,356	0.26% - 6.90%	05/26/14 - 04/25/42
Bonds and notes based on auction or remarketing		1,726,960	0.21% - 3.73%	05/01/11 - 07/01/43
Total variable-rate bonds and notes		21,914,316		
Commercial paper - FFELP facility (b)		305,710	0.21% - 0.32%	08/03/12
Fixed-rate bonds and notes (a)		8,940	6.15% - 6.34%	07/02/20 - 05/01/29
Unsecured fixed rate debt		264,966	5.125% and 7.40%	06/01/10 and 09/15/61
Unsecured line of credit		691,500	0.73%	05/08/12
Department of Education Participation		463,912	0.79%	09/30/10
Department of Education Conduit		1,125,929	0.27%	05/08/14
Other borrowings		30,016	0.24% - 5.10%	01/01/10 - 11/01/15
	$	24,805,289		

		2008		
		Carrying amount	Interest rate range	Final maturity
Variable-rate bonds and notes (a):				
Bonds and notes based on indices	$	20,509,073	0.75% - 5.02%	09/25/13 - 06/25/41
Bonds and notes based on auction or remarketing (c)		2,713,285	0.00% - 6.00%	11/01/09 - 07/01/43
Total variable-rate bonds and notes		23,222,358		
Commercial paper - FFELP facility (b)		1,445,327	1.32% - 2.94%	05/09/10
Commercial paper - private loan facility (b)		95,020	2.49%	03/14/09
Fixed-rate bonds and notes (a)		202,096	5.30% - 6.68%	11/01/09 - 05/01/29
Unsecured fixed rate debt		475,000		

		5.125% and 7.40%	06/01/10 and 09/15/61
Unsecured line of credit	691,500	0.98% - 2.41%	05/08/12
Department of Education Participation	622,170	3.37%	09/30/09
Other borrowings	34,488	1.25% - 5.47%	05/22/09 - 11/01/15
	$ 26,787,959		

(a) Issued in asset-backed securitizations

(b) Loan warehouse facilities

(c) As of December 31, 2008, the Company had $115.2 million of bonds based on an auction rate of 0%, due to the Maximum Rate auction provisions in the underlying documents for such financings. The Maximum Rate provisions include multiple components, one of which is based on T-bill rates. The T-bill component calculation for these bonds produced negative rates, which resulted in auction rates of zero percent for the applicable period.

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Secured Financing Transactions

The Company has historically relied upon secured financing vehicles as its most significant source of funding for student loans. The net cash flow the Company receives from the securitized student loans generally represents the excess amounts, if any, generated by the underlying student loans over the amounts required to be paid to the bondholders, after deducting servicing fees and any other expenses relating to the securitizations. The Company's rights to cash flow from securitized student loans are subordinate to bondholder interests and may fail to generate any cash flow beyond what is due to bondholders. The Company's secured financing vehicles are loan warehouse facilities, asset-backed securitizations, and the government's Participation and Conduit Programs (as described below).

The majority of the bonds and notes payable are primarily secured by the student loans receivable, related accrued interest, and by the amounts on deposit in the accounts established under the respective bond resolutions or financing agreements. Certain variable rate bonds and notes and fixed rate bonds are secured by financial guaranty insurance policies or a letter of credit and reimbursement agreement issued by Municipal Bond Investors Assurance Corporation, Ambac Assurance Corporation, and State Street.

Historically, the Company funded new loan originations using loan warehouse facilities and asset-backed securitizations. Student loan warehousing has historically allowed the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. In July 2008, the Company did not renew its liquidity provisions on its FFELP warehouse facility. Accordingly, the facility became a term facility and no new loan originations could be funded with this facility. In August 2008, the Company began funding FFELP Stafford and PLUS student loan originations for the 2008-2009 and 2009-2010 academic years pursuant to the Department's Participation Program and a participation agreement with Union Bank.

Loan warehouse facilities

Student loan warehousing has historically allowed the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. To support its funding needs on a short-term basis, the Company historically relied upon a multi-year committed facility for FFELP loans and a $250.0 million private loan warehouse for non-federally insured student loans.

FFELP Warehouse Facility

On August 3, 2009, the Company entered into a FFELP warehouse facility (the "2009 FFELP Warehouse Facility"). The 2009 FFELP Warehouse Facility has a maximum financing amount of $500.0 million, with a revolving financing structure supported by 364-day liquidity provisions, which expire on August 2, 2010. The final maturity date of the facility is August 3, 2012. In the event the Company is unable to renew the liquidity provisions by August 2, 2010, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and the Company would be required to refinance the existing loans in the facility by August 3, 2012.

The 2009 FFELP Warehouse Facility provides for formula based advance rates depending on FFELP loan type, up to a maximum of 92 percent to 98 percent of the principal and interest of loans financed. The advance rates for collateral may increase or decrease based on market conditions. The facility contains financial covenants relating to levels of the Company's consolidated net worth, ratio of adjusted EBITDA to corporate debt interest, and unencumbered cash. Any violation of these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facility. As of December 31, 2009, the Company was in compliance with all of these requirements. Unlike the Company's prior FFELP warehouse facility, the new facility does not require the Company to refinance or remove a percentage of the pledged student loan collateral on an annual basis. As of December 31, 2009, $305.7 million was outstanding under this facility and $194.3 million was available for future use.

The Company's prior FFELP warehouse facility was supported by 364-day liquidity which was up for renewal on May 9, 2008. The Company obtained an extension on this renewal until July 31, 2008. On July 31, 2008, the Company did not renew the liquidity provisions of this facility. Accordingly, as of July 31, 2008, the facility became a term facility with a final maturity date of May 9, 2010. The terms and conditions of the prior FFELP warehouse facility provided for formula-based advance rates based on market conditions. As of December 31, 2008, the Company had $1.6 billion of student loans in the facility, $1.4 billion borrowed under the facility, and $280.6 million in cash posted as equity funding support for this facility. During 2009, the Company refinanced the student loans in this facility which allowed the Company to withdraw all remaining equity funding support from the facility. The Company refinanced these loans using the following facilities:

- In March 2009, the Company completed a privately placed asset-backed securitization of $294.6 million.
- In June 2009, the Company accessed the Department's Conduit Program (as further discussed below).
- In August 2009, the Company refinanced all remaining loans using the 2009 FFELP Warehouse Facility and terminated the prior FFELP facility.

Private Loan Warehouse Facility

On February 25, 2009, the Company paid $91.5 million on the outstanding debt of its private loan warehouse facility with operating cash and terminated the facility. Beginning in January 2008, the Company suspended private student loan originations.

Asset-backed securitizations

During 2009 and 2008, the Company completed asset-backed securities transactions totaling $1.0 billion and $4.5 billion, respectively. Notes issued in the 2009 and 2008 asset-backed securities transactions carry interest rates based on a spread to LIBOR. As part of the Company's issuance of asset-backed securities in March 2008 and May 2008, due to credit market conditions when these notes were issued, the Company purchased the Class B subordinated notes of $36 million (par value) and $41 million (par value), respectively. These notes are not included on the Company's consolidated balance sheet. If the credit market conditions improve, the Company anticipates selling these notes to third parties. Upon a sale to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. Upon sale, these notes would be shown as "bonds and notes payable" on the Company's consolidated balance sheet. Unless there is a significant market improvement, the Company believes the market value of such notes will be less than par value. The difference between the par value and market value would be recognized by the Company as interest expense over the life of the bonds.

Notes issued during 2006 included €773.2 million (950 million in U.S. dollars) with variable interest rates initially based on a spread to EURIBOR (the "Euro Notes"). As of December 31, 2009 and 2008, the Euro Notes were recorded on the Company's balance sheet at $1.1 billion. The changes in the principal amount of Euro Notes as a result of the fluctuation of the foreign currency exchange rate were an increase of $37.7 million for the year ended December 31, 2009, a decrease of $52.9 million for the year ended December 31, 2008, and an increase of $108.7 million for the year ended December 31, 2007. These changes are included in the "derivative market value, foreign currency, and put option adjustments and derivative settlements, net" in the consolidated statements of income. Concurrently with the issuance of the Euro Notes, the Company entered into cross-currency interest rate swaps which are further discussed in note 9.

The interest rates on certain of the Company's asset-backed securities are set and periodically reset via a "dutch auction" ("Auction Rate Securities") or through a remarketing utilizing remarketing agents ("Variable Rate Demand Notes"). The Company is currently sponsor on approximately $1.4 billion of Auction Rate Securities and $0.3 billion of Variable Rate Demand Notes.

For Auction Rate Securities, investors and potential investors submit orders through a broker-dealer as to the principal amount of notes they wish to buy, hold, or sell at various interest rates. The broker-dealers submit their clients' orders to the auction agent, who then determines the clearing interest rate for the upcoming period. Interest rates on these Auction Rate Securities are reset periodically, generally every 7 to 35 days, by the auction agent or agents. During the first quarter of 2008, as part of the credit market crisis, auction rate securities from various issuers failed to receive sufficient order interest from potential investors to clear successfully, resulting in failed auction status. Since February 8, 2008, all of the Company's Auction Rate Securities have failed in this manner. Under normal conditions, banks have historically purchased these securities when investor demand is weak. However, since February 2008, banks have been allowing auctions to fail.

As a result of a failed auction, the Auction Rate Securities will 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. Based on the relative levels of these indices as of December 31, 2009, the rates expected to be paid by the Company range from 91-day T-Bill plus 125 basis points, on the low end, to LIBOR plus 250 basis points, on the high end. These maximum rates are subject to increase if the credit ratings on the bonds are downgraded.

The Company cannot predict whether future auctions related to its Auction Rate Securities will be successful, but management believes it is likely auctions will continue to fail indefinitely. The Company is currently seeking alternatives for reducing its exposure to the auction rate market, but may not be able to achieve alternate financing for some of its Auction Rate Securities.

For Variable Rate Demand Notes, the remarketing agents set the price, which is then offered to investors. If there are insufficient potential bid orders to purchase all of the notes offered for sale, the Company could be subject to interest costs substantially above the anticipated and historical rates paid on these types of securities. The maximum rate for Variable Rate Demand Notes is based on a spread to certain indexes as defined in the underlying documents, with the highest to the Company being Prime plus 200 basis points.

Department of Education’s Loan Participation and Purchase Commitment Programs

In August 2008, the Department implemented the Purchase Program and the Participation Program pursuant to the Ensuring Continued Access to Student Loans Act of 2008 (“ECASLA”). Under the Department’s Purchase Program, the Department will purchase loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one percent origination fee paid to the Department, and (iv) a fixed amount of $75 per loan. Under the Participation Program, the Department provides interim short term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged a rate of commercial paper plus 50 basis points on the principal amount of participation interests outstanding. Loans funded under the Participation Program for the 2008-2009 academic year had to be either refinanced by the lender or sold to the Department pursuant to the Purchase Program prior to October 15, 2009. To be eligible for purchase or participation under the Department’s programs, loans were originally limited to FFELP Stafford or PLUS loans made for the academic year 2008-2009, first disbursed between May 1, 2008 and July 1, 2009, with eligible borrower benefits.

On October 7, 2008, legislation was enacted to extend the Department’s authority to address FFELP student loans made for the 2009-2010 academic year and allowing for the extension of the Participation Program and Purchase Program from October 15, 2009 to September 30, 2010. The Department indicated that loans for the 2008-2009 academic year which were funded under the Department's Participation Program would need to be refinanced or sold to the Department prior to October 15, 2009. On November 8, 2008, the Department announced the replication of the terms of the Participation and Purchase Programs, in accordance with the October 7, 2008 legislation, which includes FFELP student loans made for the 2009-2010 academic year.

As of December 31, 2009 and 2008, the Company had $463.9 million and $622.2 million, respectively, borrowed under the Participation Program. The Company plans to continue to use the Participation Program to fund certain loans through the 2009-2010 academic year. These programs are allowing the Company to continue originating new federal student loans to all students regardless of the school they attend.

Department of Education’s Conduit Program

In January 2009, the Department published summary terms for its program under which it will finance eligible FFELP Stafford and PLUS loans in a conduit vehicle established to provide funding for student lenders (the “Conduit Program”). Loans eligible for the Conduit Program had to be first disbursed on or after October 1, 2003, but not later than June 30, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements. The Conduit Program was launched on May 11, 2009. Funding for the Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. Excess amounts needed to fund the remaining 3 percent of the student loan balances are contributed by the Company. The Conduit

Program has a term of five years and expires on May 8, 2014. The Student Loan Short-Term Notes ("Student Loan Notes") issued by the Conduit Program are supported by a combination of (i) notes backed by FFELP loans, (ii) a liquidity agreement with the Federal Financing Bank, and (iii) a put agreement provided by the Department. If the conduit does not have sufficient funds to pay all Student Loan Notes, then those Student Loan Notes will be repaid with funds from the Federal Financing Bank. The Federal Financing Bank will hold the notes for a short period of time and, if at the end of that time, the Student Loan Notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the Conduit Program will be sold to the Department through the Put Agreement at a price of 97 percent of the face amount of the loans. As of December 31, 2009, the Company had $1.1 billion borrowed under the facility and $66.8 million advanced as equity support in the facility.

Union Bank Participation Agreement

The Company maintains an agreement with Union Bank, as trustee for various grantor trusts, under which Union Bank has agreed to purchase from the Company participation interests in student loans (the "FFELP Participation Agreement"). The Company has the option to purchase the participation interests from the grantor trusts at the end of a 364-day period upon termination of the participation certificate. As of December 31, 2009 and 2008, $613.3 million and $548.4 million, respectively, 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 on a short term basis. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up to $750 million or an amount in excess of $750 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 sheet.

Unsecured Line of Credit

The Company has a $750.0 million unsecured line of credit that terminates in May 2012. As of December 31, 2009 and 2008, there was $691.5 million outstanding on this line. The weighted average interest rate on this line of credit was 0.73% as of December 31, 2009. Upon termination in 2012, there can be no assurance that the Company will be able to maintain this line of credit, find alternative funding, or increase the amount outstanding under the line, if necessary. The lending commitment under the Company's unsecured line of credit is provided by a total of thirteen banks, with no individual bank representing more than 11% of the total lending commitment. The bank lending group includes Lehman Brothers Bank ("Lehman"), a subsidiary of Lehman Brothers Holdings Inc., which represents approximately 7% of the lending commitment under the line of credit. On September 15, 2008, Lehman Brothers Holdings Inc. filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The Company does not expect that Lehman will fund future borrowing requests. As of December 31, 2009, excluding Lehman's lending commitment, the Company has $51.2 million available for future use under its unsecured line of credit.

The line of credit agreement contains certain financial covenants that, if not met, lead to an event of default under the agreement. The covenants include maintaining:

- A minimum consolidated net worth
- A minimum adjusted EBITDA to corporate debt interest (over the last four rolling quarters)
- A limitation on subsidiary indebtedness
- A limitation on the percentage of non-guaranteed loans in the Company's portfolio

As of December 31, 2009, the Company was in compliance with all of these requirements. Many of these covenants are duplicated in the Company's other lending facilities, including its FFELP warehouse facilities.

The Company's operating line of credit does not have any covenants related to unsecured debt ratings. However, changes in the Company's ratings (as well as the amounts the Company borrows) have modest implications on the pricing level at which the Company obtains funding.

A default on the 2009 FFELP Warehouse Facility would result in an event of default on the Company's unsecured line of credit that would result in the outstanding balance on the line of credit becoming immediately due and payable.

Unsecured Fixed Rate Debt

On May 25, 2005, the Company issued $275.0 million in aggregate principal amount of Senior Notes due June 1, 2010 (the "Notes"). The Notes are unsecured obligations of the Company. The interest rate on the Notes is 5.125%, payable semiannually. At the Company's option, the Notes are redeemable in whole at any time or in part from time to time at the redemption price described in its prospectus supplement.

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On September 27, 2006 the Company issued $200.0 million aggregate principal amount of Junior Subordinated Hybrid Securities ("Hybrid Securities"). The Hybrid Securities are unsecured obligations of the Company. The interest rate on the Hybrid Securities from the date they were issued through September 28, 2011 is 7.40%, payable semi-annually. Beginning September 29, 2011 through September 29, 2036, the "scheduled maturity date", the interest rate on the Hybrid Securities will be equal to three-month LIBOR plus 3.375%, payable quarterly. The principal amount of the Hybrid Securities will become due on the scheduled maturity date only to the extent that the Company has received proceeds from the sale of certain qualifying capital securities prior to such date (as defined in the Hybrid Securities' prospectus). If any amount is not paid on the scheduled maturity date, it will remain outstanding and bear interest at a floating rate as defined in the prospectus, payable monthly. On September 15, 2061, the Company must pay any remaining principal and interest on the Hybrid Securities in full whether or not the Company has sold qualifying capital securities. At the Company's option, the Hybrid Securities are redeemable (i) in whole or in part, at any time on or after September 29, 2011, at their principal amount plus accrued and unpaid interest, provided in the case of a redemption in part that the principal amount outstanding after such redemption is at least $50.0 million, or (ii) in whole, but not in part, prior to September 29, 2011, after certain events involving taxation (as described in the Hybrid Securities' prospectus).

During 2009, the Company repurchased certain amounts of its unsecured fixed rate debt as summarized below.

Other Borrowings

On October 13, 2006, the Company purchased a building in which its corporate headquarters is located. In connection with the acquisition of the building, the Company assumed the outstanding note on the property. As of December 31, 2009 and 2008, the outstanding balance on the note was $4.9 million and $5.0 million, respectively.

As of December 31, 2009 and 2008, bonds and notes payable included $10.0 million and $8.0 million, respectively, of notes due to a third-party. The Company used the proceeds from these notes to invest in non-federally insured student loan assets via a participation agreement.

As of December 31, 2009, bonds and notes payable included a line of credit with a balance of $15.1 million. The Company used the proceeds from the line of credit to purchase federally insured student loans.

As of December 31, 2008, bonds and notes payable included $21.5 million of notes due to Union Bank. The Company used the proceeds from these notes to invest in student loan assets via a participation agreement. This participation agreement is in addition to the $750 million FFELP Participation Agreement, and loans participated under this agreement do not qualify as loan sales.

Debt Repurchases

During 2009, the Company repurchased outstanding debt as summarized below. There were no debt repurchases in 2008 and 2007. Gains recorded by the Company from the repurchase of debt are included in "other income" on the Company's consolidated statements of income for the year ended December 31, 2009.

	Notional amount	Purchase price	Gain	Remaining balance
5.125% Senior Notes due 2010	$208,284	196,529	11,755	$66,716

Junior Subordinated Hybrid Securities	1,750	350	1,400	$198,250
Asset-backed securities	348,155	319,627	28,528	
	$558,189	516,506	41,683	

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NELNET, INC. AND SUBSIDIARIES
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Maturity Schedule

Bonds and notes outstanding as of December 31, 2009 are due in varying amounts as shown below.

2010	$861,471
2011	49,200
2012	691,500
2013	—
2014	1,471,087
2015 and thereafter	21,732,031
	$24,805,289

Generally, the Company's secured financing instruments bearing interest at variable rates can be redeemed on any interest payment date at par plus accrued interest. Subject to certain provisions, all bonds and notes are subject to redemption prior to maturity at the option of certain education lending subsidiaries.

One of the Company's education lending subsidiaries has irrevocably escrowed funds to make the remaining principal and interest payments on previously issued bonds and notes. Accordingly, neither these obligations nor the escrowed funds are included on the accompanying consolidated balance sheets. As of December 31, 2009 and 2008, $34.3 million and $31.9 million, respectively, of defeased debt remained outstanding.

Certain bond resolutions contain, among other requirements, covenants relating to restrictions on additional indebtedness, limits as to direct and indirect administrative expenses, and maintaining certain financial ratios. Management believes the Company is in compliance with all covenants of the bond indentures and related credit agreements as of December 31, 2009.

9. Derivative Financial Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk and foreign currency exchange risk.

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. Because the Company generates a significant portion of its earnings from its student loan spread, the interest rate sensitivity of the balance sheet is a key profitability driver. The Company has adopted a policy of periodically reviewing the mismatch related to the interest rate characteristics of its assets and liabilities together with the Company's outlook as to current and future market conditions. Based on those factors, the Company uses derivative instruments as part of its overall risk management strategy.

Basis Swaps

The Company issues asset-backed securities, the vast majority being variable rate, to fund its student loan assets. The variable rate debt is generally indexed to three-month LIBOR, set by auction, or through a remarketing process. The income generated by the Company's student loan assets is generally driven by short term indices (treasury bills, commercial paper, and certain fixed rates) that are different from those which affect the Company's liabilities, which creates basis risk. Moreover, the Company also faces repricing risk due to the timing of the interest rate resets on its liabilities, which may occur as infrequently as every quarter, and the timing of the interest rate resets on its assets, which generally occurs daily. In a declining interest rate environment, this may cause the Company's student loan spread to compress, while in a rising rate environment, it may cause the spread to increase. As of December 31, 2009, the Company had $22.4 billion and $1.0 billion of FFELP loans indexed to the three-month financial commercial paper rate and the three-month treasury bill rate, respectively, both of which reset daily, and $20.2 billion of debt indexed to three-month LIBOR, which resets quarterly.

Because of the different index types and different index reset frequencies, the Company is exposed to interest rate risk in the form of basis risk and repricing risk, which, as noted above, is the risk that the different indices may reset at different frequencies, or will not move in the same direction or with the same magnitude. While these indices are short term with rate movements that are highly correlated over a longer period of time, capital market dislocations or other factors not within the Company's control can impact the level of correlation on these indices.

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
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The Company has used derivative instruments to hedge both the basis and repricing risk on certain student loans in which the Company earns interest based on a treasury bill rate that resets daily and are funded with debt indexed to primarily three-month LIBOR. To hedge these loans, the Company has entered into basis swaps in which the Company receives three-month LIBOR set discretely in advance and pays a weekly treasury bill rate plus a spread as defined in the agreement ("T-Bill/LIBOR Basis Swaps").

However, the Company does not generally hedge the basis risk on those assets indexed to the commercial paper rate that are funded with liabilities in which the Company pays primarily on the LIBOR index, since the derivatives needed to hedge this risk are generally illiquid or non-existent and the relationship between these indices has been highly correlated over a long period of time.

The Company has also used derivative instruments to hedge the repricing risk due to the timing of the interest rate resets on its assets and liabilities. The Company has entered into basis swaps in which the Company:

- receives three-month LIBOR set discretely in advance and pays a daily weighted average three-month LIBOR less a spread as defined in the agreements (the "Average/Discrete Basis Swaps")

- 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 following table summarizes the Company's basis swaps outstanding as of December 31, 2009 and 2008:

	2009 Notional amount		
Maturity	Average/Discrete Basis Swaps	1/3 Basis Swaps	T-Bill/LIBOR Basis Swaps
2010	$ —	1,000,000	—
2011 (a)	—	—	225,000
2013	—	500,000	—
2014	—	500,000	—
2018	—	1,300,000	—
2019	—	500,000	—
2021	—	250,000	—
2023	—	1,250,000	—
2024	—	250,000	—
2028	—	100,000	—
2039	—	150,000	—
	$ —	5,800,000	225,000

(a) These derivatives have forward effective start dates of October 2010 ($75 million), November 2010 ($75 million), and December 2010 ($75 million).

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	2008 Notional amount		
Maturity	Average/Discrete Basis Swaps	1/3 Basis Swaps	T-Bill/LIBOR Basis Swaps
2010	$ 4,500,000	—	—
2011	2,700,000	—	—
2012	2,400,000	—	—
2018	—	1,300,000	—
2023	—	1,250,000	—
2028	—	100,000	—
	$ 9,600,000	2,650,000	—

During the years ended December 31, 2009 and 2008, the Company terminated and/or amended certain basis swap agreements for net receipts of $3.9 million and $14.3 million, respectively, and net payments of $15.1 million and $3.3 million, respectively. No basis swaps were terminated and/or amended in 2007.

Interest rate swaps

FFELP loans originated prior to April 1, 2006 generally earn interest at the higher of a floating rate based on the Special Allowance Payment (or SAP) formula set by the Department and the borrower rate, which is fixed over a period of time. The SAP formula is based on an applicable index plus a fixed spread that is dependent upon when the loan was originated, the loan's repayment status, and funding sources for the loan. 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 rate produced by the SAP formula, the Company's student loans earn at a fixed rate while the interest on the variable rate debt typically continues to decline. 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. In accordance with legislation enacted in 2006, lenders are required to rebate fixed rate floor income and variable rate floor income to the Department for all FFELP loans first originated on or after April 1, 2006.

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.

As previously disclosed, the Company reached a settlement agreement with the Department to resolve an audit related to the Company's portfolio of student loans receiving 9.5% special allowance payments. Under the terms of the agreement, the Company will no longer receive 9.5% special allowance payments. In December 2006, in consideration of not receiving the 9.5% special allowance payments on a prospective basis, the Company entered into a series of off-setting interest rate swaps that mirrored the $2.45 billion in pre-existing interest rate swaps that the Company had utilized to hedge its loan portfolio receiving 9.5% special allowance payments against increases in interest rates. During 2007, the Company entered into a series of off-setting interest rate swaps that mirrored the remaining interest rate swaps utilized to hedge the Company’s student loan portfolio against increases in interest rates. The net effect of the offsetting derivatives was to lock in a series of future income streams on underlying trades through their respective maturity dates. The following table summarizes these derivatives:

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Maturity		Notional amount	Weighted average fixed rate paid by the Company			Notional amount	Weighted average fixed rate received by the Company	
2007	$	512,500	3.42	%	$	512,500	5.25	%
2008		462,500	3.76			462,500	5.34	
2009		312,500	4.01			312,500	5.37	
2010		1,137,500	4.25			1,137,500	4.75	
2011		—	—			—	—	
2012		275,000	4.31			275,000	4.76	
2013		525,000	4.36			525,000	4.80	
	$	3,225,000	4.05	%	$	3,225,000	4.98	%

In August 2007, the Company terminated all interest rate swaps summarized above for net proceeds of $50.8 million.

In December 2007 and January 2008, the Company entered into the following interest rate derivatives to hedge fixed rate student loan assets earning fixed rate floor income or variable rate floor income.

Maturity		Notional Amount	Weighted average fixed rate paid by the Company (b)	
2008 (a)	$	2,000,000	4.18	%
2009		500,000	4.08	
2010		700,000	3.44	
2011		500,000	3.57	
2012		250,000	3.86	
	$	3,950,000	3.94	%

(a) The maturity date on these derivatives was June 30, 2008.

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

During 2008, with the exception of the derivatives that expired on June 30, 2008, the Company paid $7.0 million (net) to terminate all remaining derivatives included in the table above.

As of December 31, 2009, the Company held the following interest rate derivatives to hedge fixed-rate student loan assets earning fixed rate floor income.

Maturity	Notional Amount	Weighted average fixed rate paid by the Company (a)

2010	$	4,750,000	0.54	%
2011		150,000	1.03	
	$	4,900,000	0.55	%

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

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NELNET, INC. AND SUBSIDIARIES
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Foreign Currency Exchange Risk

During 2006, the Company completed separate debt offerings of student loan asset-backed securities that included 420.5 million and 352.7 million Euro Notes with interest rates based on a spread to the EURIBOR index. As a result of this transaction, the Company is exposed to market risk related to fluctuations in foreign currency exchange rates between the U.S. dollar and Euro. The principal and accrued interest on these notes is re-measured at each reporting period and recorded on the Company's balance sheet in U.S. dollars based on the foreign currency exchange rate on that date. Changes in the principal and accrued interest amounts as a result of foreign currency exchange rate fluctuations are included in the "derivative market value, foreign currency, and put option adjustments and derivative settlements, net" in the Company's consolidated statements of income.

The Company entered into cross-currency interest rate swaps in connection with the issuance of the Euro Notes. Under the terms of these derivative instrument agreements, the Company receives from a counterparty a spread to the EURIBOR index based on notional amounts of €420.5 million and €352.7 million and pays a spread to the LIBOR index based on notional amounts of $500.0 million and $450.0 million, respectively. In addition, under the terms of these agreements, all principal payments on the Euro Notes will effectively be paid at the exchange rate in effect as of the issuance of the notes.

The following table shows the income statement impact as a result of the re-measurement of the Euro Notes and the change in the fair value of the related derivative instruments for the periods ended December 31, 2009, 2008, and 2007. These items are included in "Derivative market value, foreign currency, and put option adjustments and derivative settlements, net" on the accompanying consolidated statements of income.

	2009	2008	2007
Re-measurement of Euro Notes	$(37,654)	52,886	(108,712)
Change in fair value of cross currency interest rate swaps	2,497	(24,436)	125,532
Total impact to statements of income - (expense) income	$(35,157)	28,450	16,820

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

Interest Rate Floor Contracts

In June 2006, the Company entered into interest rate floor contracts in which the Company received an upfront fee of $8.6 million. These contracts were structured to monetize on an upfront basis the potential floor income associated with certain consolidation loans. On January 30, 2007, the Company paid $8.1 million to terminate these interest rate floor contracts.

Accounting for Derivative Financial Instruments

The Company records derivative instruments on the consolidated balance sheet as either an asset or liability measured at its fair value. 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 the Company's derivatives at each reporting date are included in "derivative market value, foreign currency, and put option adjustments and derivative settlements, net" in the Company's consolidated statements of income. Changes or shifts in the forward yield curve and fluctuations in currency rates can significantly impact the valuation of the Company's derivatives. Accordingly, changes or shifts to the forward yield curve and fluctuations in currency rates will impact the financial position and results of operations of the Company.

Any proceeds received or payments made by the Company to terminate a derivative in advance of its expiration date, or to amend the terms of an existing derivative, are included in "derivative market value, foreign currency, and put option adjustments and derivative settlements, net" on the consolidated statements of income and are accounted for as a change in fair value on such derivative.

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The following table summarizes the fair value of the Company's derivatives not designated as hedging instruments as of December 31, 2009 and 2008:

	Fair value of asset derivatives		Fair value of liability derivatives	
	2009	2008	2009	2008
Interest rate swaps	$4,497	—	2,230	—
Average/discrete basis swaps	—	2,817	—	1,800
1/3 basis swaps	17,768	5,037	—	15
T-Bill/LIBOR basis swaps	—	—	259	—
Cross-currency interest rate swaps	169,817	167,320	—	—
Other	1,817	—	—	—
Total	$193,899	175,174	2,489	1,815

The following table summarizes the effect of derivative instruments in the consolidated statements of income for the years ended December 31, 2009, 2008, and 2007. All gains and losses recognized in income related to the Company's derivative activity are included in "Derivative market value, foreign currency, and put option adjustments and derivative settlements, net", on the consolidated statements of income.

Derivatives not designated as hedging	Amount of gain (or loss) recognized in income on derivatives		
	2009	2008	2007
Settlements:			
Interest rate swaps	$(2,020)	(15,036)	16,803
Average/discrete basis swaps	11,483	44,947	7,319
1/3 basis swaps	21,192	1,805	1,215
T-Bill/LIBOR basis swaps	—	—	—
Cross-currency interest rate swaps	8,631	23,941	(6,660)
Other	—	—	—
Total settlements	39,286	55,657	18,677
Change in fair value:			
Interest rate swaps	4,084	(4,346)	(13,319)
Average/discrete basis swaps	(13,647)	(19,190)	26,638
1/3 basis swaps	12,587	8,220	295
T-Bill/LIBOR basis swaps	(101)	—	—
Cross-currency interest rate swaps	2,497	(24,436)	125,532
Other	1,432	1,176	—
Total change in fair value	6,852	(38,576)	139,146
Total impact to statements of income - (expense) income	$46,138	17,081	157,823

Derivative Instruments - Credit and Market Risk

By using derivative instruments, the Company is exposed to credit and market risk.

When the fair value of a derivative instrument is negative, the Company would owe the counterparty if the derivative was settled and, therefore, has no immediate credit risk. Additionally, if the negative fair value of derivatives with a counterparty exceeds a specified threshold, the Company may have to make a collateral deposit with the counterparty. The threshold at which the Company posts collateral may depend on the Company's unsecured credit rating. If interest and foreign currency exchange rates move materially, the Company could be required to deposit a significant amount of collateral with its derivative instrument counterparties. The collateral deposits, if significant, could negatively impact the Company's liquidity and capital resources.

When the fair value of a derivative contract is positive, this generally indicates that the counterparty would owe the Company 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 the Company. As of December 31, 2009, the Company held $329 million of collateral from the counterparty on the cross-currency interest rate swaps.

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The Company attempts to manage market and credit risks associated with interest and foreign currency exchange rates by establishing and monitoring limits as to the types and degree of risk that may be undertaken, and by entering into transactions with high-quality counterparties that are reviewed periodically by the Company's risk committee. The Company also has a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association, Inc. Master Agreement.

10. Derivative Market Value, Foreign Currency, and Put Option Adjustments and Derivative Settlements, net

The following table summarizes the components of "Derivative market value, foreign currency, and put option adjustments and derivative settlements, net" included in the consolidated statements of income for the years ended December 31, 2009, 2008, and 2007.

	2009	2008	2007
Change in fair value of derivatives	$6,852	(38,576)	139,146
Foreign currency transaction adjustment	(37,654)	52,886	(108,712)
Change in fair value of put options issued in business acquisitions	—	(3,483)	(3,628)
Derivative settlements, net	39,286	55,657	18,677
Derivative market value, foreign currency, and put option adjustments and derivative settlements, net	$8,484	66,484	45,483

11. Shareholders' Equity

Classes of Common Stock

The Company's common stock is divided into two classes. The Class B common stock has ten votes per share and the Class A common stock has one vote per share. Each Class B share is convertible at any time at the holder's option into one Class A share. With the exception of the voting rights and the conversion feature, the Class A and Class B shares are identical in terms of other rights, including dividend and liquidation rights.

Dividends

In the first quarter of 2007, the Company began paying dividends of $0.07 per share on the Company's Class A and Class B Common Stock which were paid quarterly through the first quarter of 2008. On May 21, 2008, the Company announced that it was temporarily suspending its quarterly dividend program. On November 5, 2009, the Company's Board of Directors voted to reinstate the quarterly dividend program. Accordingly, a dividend of $0.07 per share on the Company's Class A and Class B Common Stock was paid on December 15, 2009 to all holders of record as of December 1, 2009.

Conversion of Class B Common Stock

During 2007, principal shareholders gifted 10,435 shares of Class B common stock to certain charitable organizations. Per the articles of incorporation, these shares were voluntarily converted to Class A shares upon transfer. Also, in 2007, in anticipation of selling shares to the Company under the Company's stock repurchase program in a private transaction, a principal shareholder voluntarily converted 2,000,000 shares of Class B common stock to shares of Class A common stock.

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Put Option Settlements

On July 19, 2007, the Company paid $15.9 million to redeem 238,237 shares of the Company's Class A common stock that were subject to put option agreements exercisable in February 2010 at $83.95 per share. These shares were issued by the Company in February 2006 in consideration for the purchase of the remaining 20% interest of FACTS Management Co. The 238,237 shares of Class A common stock purchased by the Company were retired resulting in a $5.4 million decrease to the Company's consolidated shareholders' equity.

In addition, on November 10, 2008, the Company paid $9.6 million to redeem 258,760 shares of the Company's Class A common stock that were subject to put option agreements exercisable in November 2008 at $37.10 per share. These shares were issued by the Company in November 2005 in consideration for the purchase of 5280 Solutions, Inc. The 258,760 shares of Class A common stock purchased by the Company were retired.

Stock Repurchase Program

The Company has a stock repurchase program that expires on May 24, 2010 in which it can repurchase up to a total of 10 million shares of the Company's Class A common stock on the open market, through private transactions, or otherwise. During the years ended December 31, 2009, 2008, and 2007, the Company repurchased and retired 38,429 shares, 388,204 shares, and 3,372,122 shares of Class A common stock, respectively, for $0.4 million (average price of $11.17 per share), $11.1 million (average price of $28.69 per share), and $82.1 million (average price of $24.33 per share), respectively. The 2007 shares repurchased included 2,725,000 shares repurchased from certain members of management of the Company in private transactions under the stock repurchase program. As of December 31, 2009, 4,833,907 shares may yet be purchased under the Company's stock repurchase program.

12. Earnings per Common Share

Presented below is a summary of the components used to calculate basic and diluted earnings per share. On January 1, 2009, the Company began applying the two-class method of computing earnings per share. The two-class method requires the calculation of separate earnings per share amounts for unvested share-based awards and for common stock. Unvested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock. Earnings per share attributable to common stock is shown in the table below. Prior period earnings per share data has been retroactively adjusted to conform to the current presentation.

A reconciliation of weighted average shares outstanding for the years ended December 31, 2009, 2008, and 2007 follows:

	2009	2008	2007
Net income attributable to Nelnet, Inc.	$139,125	28,662	32,854
Less earnings allocated to unvested restricted stockholders	889	210	144
Net income available to common stockholders	$138,236	28,452	32,710
Weighted average common shares outstanding - basic	49,484,816	49,099,967	49,618,107
Dilutive effect of the assumed vesting of restricted stock awards	200,327	224,311	114,866
	49,685,143	49,324,278	49,732,973

Weighted average common shares outstanding - diluted			
Basic earnings per common share	$2.79	0.58	0.66
Diluted earnings per common share	$2.78	0.58	0.66

Included in the Company's weighted average shares outstanding during the years ended December 31, 2009, 2008, and 2007 is 96,622 shares, 54,573 shares, and 24,412 shares, respectively, of restricted stock units issued to certain associates of the Company and "phantom" shares that will be issued to nonemployee directors upon their termination from the board of directors under the Company's nonemployee directors' compensation plan (see note 19).

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13. Other Income

The following table summarizes the components of "other income" included in the consolidated statements of income for the years ended December 31, 2009, 2008, and 2007.

		2009	2008	2007
Gains on debt repurchases, net	$	41,683	—	—
Borrower late fee income		11,305	11,515	8,207
Gain on sale of equity method investment (a)		3,500	—	3,942
Other		11,664	11,260	18,274
Other income	$	$68,152	22,775	30,423

(a) On September 28, 2007, the Company sold its 50% membership interests in Premiere Credit of North America, LLC ("Premiere") for initial proceeds of $10.0 million. Premiere is not an affiliated entity of the Company. The Company recognized an initial gain on the sale of Premiere of $3.9 million. In January 2009, the Company earned $3.5 million in additional consideration as a result of the sale of Premiere. This payment represented contingent consideration that was owed to the Company if Premiere was awarded a collections contract as defined in the purchase agreement.

14. Restricted Investments

The Company's restricted investments, included in "restricted cash and investments" in the attached consolidated balance sheets, by contractual maturity, as of December 31, 2009 and 2008, are shown below. See note 3 for the Company's accounting policy related to restricted investments.

	2009	2008
Over 1 year through 5 years	$48,090	31,111
After 5 years through 10 years	7,620	238,561
After 10 years	251,252	340,196
	$306,962	609,868

15.Property and Equipment

Property and equipment consisted of the following as of December 31, 2009 and 2008:

	Useful life	2009	2008
Computer equipment and software	1-5 years	$80,501	83,200
Office furniture and equipment	3-7 years	13,049	13,206
Leasehold improvements	1-15 years	11,792	11,949
Transportation equipment	3-10 years	3,771	3,771
Buildings	5-39 years	8,320	8,534
Land	—	700	700
		118,133	121,360
Accumulated depreciation		91,527	82,613

	$26,606	38,747

Depreciation expense for the years ended December 31, 2009, 2008, and 2007 related to property and equipment was $13.4 million, $17.4 million, and $17.0 million, respectively.

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16. Income Taxes

The Company is subject to income taxes in the United States and Canada. Significant judgment is required in evaluating the Company's tax positions and determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain.

On January 1, 2007, the Company adopted the provisions of Accounting Standards Codification Subtopic 740, which clarified the accounting for uncertainty in income tax positions. This standard requires the Company to recognize in the consolidated financial statements only those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. It further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter of such change. Upon adoption, the Company recognized approximately $61,000 of tax liabilities for positions that were previously recognized, of which the Company accounted for as a reduction to retained earnings.

As of December 31, 2009, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was $8.6 million. Of this total, $6.3 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods. The Company currently anticipates uncertain tax positions will decrease by $2.0 million prior to December 31, 2010 as a result of a lapse of applicable statute of limitations, settlements, correspondence with examining authorities, and recognition or measurement considerations with federal and state jurisdictions; however, actual developments in this area could differ from those currently expected. Approximately $1.3 million, if recognized, would affect the Company's effective tax rate. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for the years ended December 31, 2009 and 2008 follows:

	2009	2008
Gross balance - beginning of year	$8,275	8,359
Additions based on tax positions of prior years	1,082	938
Additions based on tax positions related to the current year	3,159	999
Settlements with taxing authorities	—	(62)
Reductions for tax positions of prior years	(3,779)	(858)
Reductions based on tax positions related to the current year	—	—
Reductions due to lapse of applicable statute of limitations	(108)	(1,101)
Gross balance - end of year	$8,629	8,275

Substantially all of the reductions due to the lapse of statute of limitations and for prior year tax positions shown above impacted the effective tax rate.

The Company's policy is to recognize interest and penalties accrued on uncertain tax positions as part of interest expense and other expense, respectively. As of December 31, 2009 and 2008, approximately $1.2 million and $1.6 million in accrued interest and penalties, respectively, was included in other liabilities. The Company recognized interest income related to uncertain tax positions of approximately $575,000 for the year ended December 31, 2009 and interest expense of approximately $72,000 and approximately $80,000 for the years ended December 31, 2008 and 2007, respectively. Penalties were accrued in 2009 totaling $235,000. No penalties were accrued in 2008 and 2007. The impact of timing differences and tax attributes are considered when calculating interest and penalty accruals associated with the unrecognized tax benefits.

The Company and its subsidiaries file a consolidated federal income tax return in the U.S. and the Company or one of its subsidiaries files income tax returns in various state, local, and foreign jurisdictions. As the Company effectively settled with the Internal Revenue Service for tax years 2005 and 2006, it is no longer subject to U.S. federal income tax examinations for years prior to 2007. With few exceptions, the Company is no longer subject to U.S. state/local income tax examinations by tax authorities prior to 2004. As of December 31, 2009, the tax years subject to examination by a significant jurisdiction are as follows:

California	2004 through 2006
New York	2004 through 2006

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The provision for income taxes from continuing operations for the years ended December 31, 2009, 2008, and 2007 consists of the following components:

		2009	2008	2007
Current:				
Federal	$	88,413	25,073	45,016
State		7,194	2,270	1,674
Foreign		23	21	5
Total current provision		95,630	27,364	46,695
Deferred:				
Federal		(15,947)	(7,256)	(24,105)
State		(3,111)	(2,217)	(874)
Foreign		1	5	—
Total deferred provision (benefit)		(19,057)	(9,468)	(24,979)
Provision for income taxes	$	76,573	17,896	21,716

The differences between the income tax provision from continuing operations computed at the statutory federal corporate tax rate and the financial statement provision for income taxes for the years ended December 31, 2009, 2008, and 2007 are shown below:

	2009	2008	2007
Tax expense at federal rate	35.0 %	35.0 %	35.0 %
Increase (decrease) resulting from:			
State tax, net of federal income tax benefit	1.9	0.9	2.2
Resolution of uncertain federal and state tax matters	—	(0.9)	(0.4)
Tax credits	(0.4)	(1.9)	(3.6)
Put option on common stock	—	4.2	3.4
Valuation allowance	(0.6)	0.8	—
Other, net	(0.4)	1.9	1.4
Effective tax rate	35.5 %	40.0 %	38.0 %

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The Company’s net deferred income tax liability, which is included in “other liabilities” on the consolidated balance sheets, consists of the following components as of December 31, 2009 and 2008:

	2009	2008
Deferred tax assets:		
Student loans	$23,940	20,229
Accrued expenses	5,677	5,283
Depreciation	1,073	969
Deferred revenue	441	536
Stock compensation	863	875
Foreign tax credit	1,041	1,339
Intangible assets	8,771	—
Bond issuance costs	740	1,994
Net operating loss carryforwards	849	1,165
Other	—	141
Total gross deferred tax assets	43,395	32,531
Less, valuation allowance	(763)	(1,988)
Deferred tax assets	42,632	30,543
Deferred tax liabilities:		
Loan origination services	47,816	55,793
Basis in certain derivative contracts	8,313	17,152
Debt repurchases	15,225	—
Intangible assets	—	5,179
Prepaid expenses	204	477
Other	158	—
Deferred tax liabilities	71,716	78,601
Net deferred income tax liability	$(29,084)	(48,058)

The Company received $2.0 million in 2008 as contingent consideration in connection with the sale of EDULINX (see note 2). The Company incurred $1.1 million of tax expense related to this consideration and generated additional foreign tax credits of $1.8 million, of which a valuation allowance of $0.8 million was established to offset these credits. The net tax expense of $0.1 million was included in the loss on disposal of EDULINX within discontinued operations.

The Company has performed an evaluation of the recoverability of deferred tax assets. In assessing the realizability of the Company’s deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected taxable income, carry back opportunities, and tax planning strategies in making the assessment of the amount of the valuation allowance. With the exception of the Company’s state net operating loss and foreign tax credit carry forwards, it is management’s opinion that it is more likely than not that the deferred tax assets will be realized and should not be reduced by a valuation allowance. The amount of deferred tax assets considered realizable; however, could be reduced in the near terms if estimates of future taxable income during the carry forward period are reduced. As of December 31, 2009, various subsidiaries have state net operating loss carry forwards of $17.4 million expiring at various times through 2028 and foreign tax credit carry forwards of $1.0 million expiring in 2018. A valuation allowance has been established at December 31, 2009 and 2008 to reduce deferred income tax assets to amounts expected to be realized.

The valuation allowance for deferred tax assets as of December 31, 2009 and 2008 was $0.8 million and $2.0 million, respectively. The net change in the valuation allowance for the year ended December 31, 2009 was a decrease of $1.2 million, which affected the Company's effective tax rate. Certain events occurred during the year which, in the judgment of management, changed the level of the Company's state net operating loss and foreign tax credit carry forwards expected to be realized.

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As of December 31, 2009 and 2008, current income taxes receivable of $0.6 million and payable of $5.3 million are included in "other assets" and "other liabilities", respectively, on the consolidated balance sheets.

17. Fair Value

The following table presents the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2009 and 2008. All financial assets and liabilities that are measured at fair value are categorized as Level 1 or Level 2 based on the hierarchy as discussed in note 3, summary of significant accounting policies and procedures.

	2009		
	Level 1	Level 2	Total
Assets:			
Other assets (a)	$4,278	—	4,278
Fair value of derivative instruments (b)	—	193,899	193,899
Total assets	$4,278	193,899	198,177
Liabilities:			
Fair value of derivative instruments (b)	$—	2,489	2,489
Total liabilities	$—	2,489	2,489

	2008		
	Level 1	Level 2	Total
Assets:			
Other assets (a)	$ 4,941	3,876	8,817
Fair value of derivative instruments (b)	—	175,174	175,174
Total assets	$ 4,941	179,050	183,991
Liabilities:			
Fair value of derivative instruments (b)	$ —	1,815	1,815
Total liabilities	$ —	1,815	1,815

(a) Other assets includes investments recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. Level 1 investments include investments traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 investments include corporate debt securities.

(b) All derivatives are accounted for at fair value on a recurring basis. The fair values of derivative financial instruments are determined by derivative pricing models using the stated terms of the contracts and observable yield curves, forward foreign currency exchange rates, and volatilities from active markets. It is the Company's policy to compare its derivative fair values to those received by its counterparties in order to validate the model's outputs. Fair value of derivative instruments is comprised of market value less accrued interest and excludes collateral.

The Company measures certain assets at fair value on a nonrecurring basis in accordance with GAAP. For the years ended December 31, 2009 and 2008, these adjustments to fair value resulted from the write-down to fair value of goodwill and intangible assets. For assets measured at fair value on a nonrecurring basis during the years ended December 31, 2009 and 2008, that were still held in the balance sheet at each respective period end, the following table provides the fair value hierarchy and the carrying value of the related individual assets at year end.

	Level 3	
	2009	2008
Goodwill (a)	$143,717	175,178
Intangible assets (b)	53,538	77,054
Property and equipment, net (b)	26,606	38,747
	$223,861	290,979

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(a) Goodwill is reviewed annually for impairment and whenever triggering events or changes in circumstances indicate its carrying value may not be recoverable.

(b) Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The following table presents the fair value adjustments included in the consolidated statements of income related to the decrease in value of the above assets. The fair value adjustments were recorded by the Company as impairment charges and are included in "impairment expense" in the consolidated statements of income.

	2009	2008
Goodwill	$(31,461)	(667)
Intangible assets	(1,267)	(13,373)
Property and equipment, net	—	(4,794)
	$(32,728)	(18,834)

The following table summarizes the fair values of all of the Company's financial instruments on the consolidated balance sheet as of December 31, 2009 and 2008:

	2009		2008	
	Fair value	Carrying value	Fair value	Carrying value
Financial assets:				
Student loans receivable	$24,387,267	23,926,957	25,743,732	25,413,008
Cash and cash equivalents	338,181	338,181	189,847	189,847
Restricted cash	318,530	318,530	387,404	387,404
Restricted cash – due to customers	91,741	91,741	160,985	160,985
Restricted investments	306,926	306,962	609,868	609,868
Accrued interest receivable	329,313	329,313	471,878	471,878
Other assets	4,278	4,278	8,817	8,817
Derivative instruments	193,899	193,899	175,174	175,174
Financial liabilities:				
Bonds and notes payable	24,741,306	24,805,289	26,512,082	26,787,959
Accrued interest payable	19,831	19,831	81,576	81,576
Due to customers	91,741	91,741	160,985	160,985
Derivative instruments	2,489	2,489	1,815	1,815

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The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring basis are discussed above. The remaining financial assets and liabilities were estimated using the following methods and assumptions:

Student Loans Receivable

The fair value of student loans receivable is estimated at amounts recently paid and/or received or amounts anticipated to be received by the Company to acquire and/or sell similar loans in the market and/or the characteristics of the portfolio and are considered to be fair value exit prices.

Cash and Cash Equivalents, Restricted Cash, Restricted Cash – Due to Customers, Restricted Investments, Accrued Interest Receivable/Payable and Due to Customers

The carrying amount approximates fair value due to the variable rate of interest and/or the short maturities of these instruments.

Bonds and Notes Payable

The fair value of the bonds and notes payable is based on market prices for securities that possess similar credit risk and interest rate risk.

18. Commitments and Contingencies

Leases

The Company is committed under noncancelable operating leases for office and warehouse space and equipment. Total rental expense incurred by the Company for the years ended December 31, 2009, 2008, and 2007 was $10.4 million, $11.9 million, and $13.4 million, respectively. Minimum future rentals as of December 31, 2009, under noncancelable operating leases are shown below:

2010	$7,995
2011	6,030
2012	5,375
2013	4,701
2014	1,932
2015 and thereafter	299
	$26,332

Future rental commitments for leases have been reduced by minimum non-cancelable sublease rentals aggregating approximately $2.1 million as of December 31, 2009.

Contingent Considerations

infiNET Integrated Solutions, Inc. (“infiNET”)

In 2004, the Company purchased 50% of the stock of infiNET and, in 2006, purchased the remaining 50% of infiNET’s stock. infiNET provides software for customer-focused electronic transactions, information sharing, and electronic account and bill presentment for colleges and universities. Consideration for the purchase of the remaining 50% of the stock of infiNET included 95,380 restricted shares of the Company's Class A common stock. Under the terms of the purchase agreement, the 95,380 shares of Class A common stock issued in the acquisition are subject to stock price guaranty provisions whereby if on or about February 28, 2011 the average market trading price of the Class A common stock is less than $104.8375 per share and has not exceeded that price for any 25 consecutive trading days during the 5-year period from the closing of the acquisition to February 28, 2011, then the Company must pay additional cash to the sellers of infiNET for each share of Class A common stock issued in an amount representing the difference between $104.8375 less the greater of $41.9335 or the gross sales price such seller obtained from a sale of the shares occurring subsequent to February 28, 2011 as defined in the agreement. Based on the closing price of the Company's Class A common stock as of December 31, 2009 of $17.23 per share, the Company's obligation under this stock price guarantee would have been approximately $6.0 million (($104.8375-$41.9335) x 95,380 shares). Any payment on the guaranty is reduced by the aggregate of any dividends or other distributions made by the Company to the sellers. Any cash paid by the Company in consideration of satisfying the guaranteed value of stock issued for this acquisition would be recorded by the Company as a reduction to additional paid-in capital.

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Student Marketing Group, Inc. (“SMG”) and National Honor Roll, L.L.C. (“NHR”)

In 2005, the Company purchased 100% of the capital stock of SMG and 100% of the membership interests of NHR. SMG is a full service direct marketing agency providing a wide range of products and services to help businesses reach the middle school, high school, college bound high school, college, and young adult marketplace. In addition, SMG provides marketing services and college bound student lists to college and university admissions offices nationwide. In addition to the initial purchase price, additional payments were paid by the Company based on the operating results of SMG and NHR as defined in the purchase agreement. In 2007 and 2008, the Company paid additional consideration of $6.0 million and $18.0 million, respectively. These payments satisfy all of the Company’s obligations related to the contingencies per the terms of the agreement. Additional consideration paid by the Company in 2007 and 2008, less any amounts accrued, was recorded as an increase to goodwill.

CUnet, LLC (“CUnet”)

In 2006, the Company purchased 100% of the membership interests of CUnet. CUnet provides campus locations and online schools with performance-based educational marketing, web-based marketing, lead generation, and vendor management services to enhance their brands and improve student recruitment and retention. In addition to the initial purchase price, additional payments were paid by the Company based on the operating results of CUnet. In 2007, the Company issued 62,446 restricted shares of its Class A common stock valued at $1.1 million and paid cash of $4.0 million to satisfy all of the Company’s remaining obligations related to the contingencies included in the original purchase agreement. The value of the common shares issued was determined based on the closing market price of the Company’s common shares over the 2-day period before and after the date in which the number of shares to be issued were known as determined per the terms of the purchase agreement. In connection with the acquisition, the Company entered into employment agreements with certain sellers, in which these contingency payments were related to their continued employment with the Company. Accordingly, these contingency payments are recognized by the Company as compensation expense over the remaining term of the employment agreements. The Company recognized $0.2 million, $1.9 million, and $1.9 million in compensation expense for the years ended December 31, 2009, 2008, and 2007, respectively, related to these contingency payments.

Peterson’s

In 2006, the Company purchased certain assets and assumed certain liabilities from Thomson Learning Inc (“Peterson’s”). During 2007, the purchase price for Peterson’s was finalized per the terms of the purchase agreement and the Company received a $2.2 million working capital settlement. This settlement was recorded by the Company as a decrease to goodwill.

19. Employee Benefit Plans

Defined Contribution Plan

The Company has a 401(k) savings plan that cover substantially all of its U.S. employees. Employees may contribute up to 100% of their pre-tax salary, subject to IRS limitations. The Company made contributions to the plan of $3.2 million, $3.5 million, and $4.5 million during the years ended December 31, 2009, 2008, and 2007, respectively. Union Bank & Trust Company, an entity under common control with the Company, serves as the trustee for the plan.

Employee Share Purchase Plan

The Company has an employee share purchase plan pursuant to which employees are entitled to purchase common stock from payroll deductions at a 15% discount from market value. The employee share purchase plan is intended to enhance the Company's ability to attract and retain employees and to better enable such persons to participate in the Company's long term success and growth.

A total of 1,000,000 Class A common stock shares are reserved for issuance under the employee share purchase plan, subject to equitable adjustment by the compensation committee in the event of stock dividends, recapitalizations, and other similar corporate events. All employees, other than those whose customary employment is 20 hours or less per week, who have been employed for at least six months, or another period determined by the Company's compensation committee not in excess of two years, are eligible to purchase Class A common stock under the plan. During the years ended December 31, 2009, 2008, and 2007, the Company recognized compensation expense of approximately $216,000, $186,000, and $279,000, respectively, in connection with issuing 52,311 shares, 71,172 shares, and 86,909 shares, respectively, under this plan.

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Notes to Consolidated Financial Statements – (Continued)
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Restricted Stock Plan

The Company has a restricted stock plan that is intended to provide incentives to attract, retain, and motivate employees in order to achieve long term growth and profitability objectives. The restricted stock plan provides for the grant to eligible employees of awards of restricted shares of Class A common stock. An aggregate of 4,000,000 shares of Class A common stock have been reserved for issuance under the restricted stock plan, subject to antidilution adjustments in the event of certain changes in capital structure.

During the years ended December 31, 2009, 2008, and 2007, the Company issued 552,321 shares, 79,162 shares, and 563,022 shares, respectively, of its Class A common stock under the restricted stock plan. Included in the 2009 shares issued are 454,957 shares issued to employees at or above management level for bonuses awarded under the performance based incentive plan. In addition, 58,489 shares, 169,961 shares, and 55,230 shares were owned and tendered by employees to satisfy tax withholding obligations or forfeited in 2009, 2008, and 2007, respectively. Tendered and forfeited shares are available for future issuance under the plan. To date, the shares issued under this plan vest immediately or vest in either three or ten years. The Company records unearned compensation in shareholders' equity (additional paid-in capital) upon issuance of restricted stock and recognizes compensation expense over the vesting period. For the years ended December 31, 2009, 2008, and 2007, the Company recognized compensation expense of $1.6 million, $2.4 million, and $2.6 million, respectively, related to shares issued under the restricted stock plan.

Employee Stock Purchase Loan Plan

The Company has entered into loan agreements with employees pursuant to the Company's Employee Stock Purchase Loan Plan (the "Loan Plan"). A total of $40.0 million in loans may be made under the Loan Plan, and a total of 1,000,000 shares of Class A common stock are reserved for issuance under the Loan Plan. Shares may be purchased directly from the Company or in the open market through a broker at prevailing market prices at the time of purchase. Loans under this plan mature ten years from grant date and bear interest equal to the three-month LIBOR rate plus 50 basis points. As of December 31, 2009 and 2008, the balance of the loans granted under the Loan Plan was $1.4 million and $1.6 million, respectively, and is reflected as a reduction to stockholders' equity on the consolidated balance sheets.

Non-employee Directors Compensation Plan

The Company has a compensation plan for non-employee directors pursuant to which non-employee directors can elect to receive their annual retainer fees in the form of cash or Class A common stock. Up to 400,000 shares may be issued under the plan, subject to antidilution adjustments in the event of certain changes in capital structure. If a nonemployee director elects to receive Class A common stock, the number of shares of Class A common stock that are awarded is equal to the amount of the annual retainer fee otherwise payable in cash divided by 85% of the fair market value of a share of Class A common stock on the date the fee is payable. Non-employee directors who choose to receive Class A common stock may also elect to defer receipt of the Class A common stock until termination of their service on the board of directors.

During the years ended December 31, 2009, 2008, and 2007, the Company issued 7,143 shares, 17,837 shares, and 13,691 shares, respectively, of its Class A common stock to non-employee directors under this plan. These shares were issued to directors that elected to receive shares and did not defer receipt of the shares. In addition, during the years ended December 31, 2009, 2008, and 2007, the Company allocated 36,078 shares, 35,806 shares, and 7,974 shares, respectively, to directors that elected to defer receipt of their shares until their termination from the board of directors. The deferred shares are included in the Company's weighted average shares outstanding calculation. For the years ended December 31, 2009, 2008, and 2007, the Company recognized approximately $575,000, $494,000, and $459,000, respectively, of expense related to this plan.

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Notes to Consolidated Financial Statements – (Continued)
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20. Legal Proceedings

General

The Company is subject to various claims, lawsuits, and proceedings that arise in the normal course of business. These matters principally consist of claims by student loan borrowers disputing the manner in which their student loans have been processed 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 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 of Education 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.

Regulatory Reviews

The Department of Education periodically reviews participants in the FFELP for compliance with program provisions. On June 28, 2007, the Department notified the Company that it would be conducting a review of the Company's practices in connection with the prohibited inducement provisions of the Higher Education Act and the associated regulations that allow borrowers to have a choice of lenders. The Company understands that the Department selected several schools and lenders for review. The Company responded to the Department's requests for information and documentation and cooperated with their review. On May 1, 2009, the Company received the Department's preliminary program review report, which covered the Department's review of the period from October 1, 2002 to September 30, 2007. The preliminary program review report contained certain initial findings of noncompliance with the Higher Education Act's prohibited inducement provisions and required that the Company provide an explanation for the basis of the arrangements noted in the preliminary program review report. The Company has responded and provided an explanation of the arrangements noted in the Department of Education's initial findings and follow-up requests. The Department of Education is expected to issue a final program review determination letter and advise the Company whether it intends to take any additional action. To the extent any findings are contained in a final letter, the additional action may include the assessment of fines or penalties, or the limitation, suspension, and termination of the Company's participation in the FFELP.

In connection with the Company's settlement agreement with the Department of Education in January 2007 to resolve an audit report by the Office of Inspector General of the Department of Education (the "OIG") with respect to the Company's student loan portfolio receiving special allowance payments at a minimum 9.5% interest rate (the "Settlement Agreement"), the Company was informed in February 2007 by the Department of Education that a civil attorney with the Department of Justice had opened a file regarding the issues set forth in the OIG report, which the Company understands is common procedure following an OIG audit report. The Company has engaged in discussions with and provided information to the Department of Justice in connection with the review.

While the Company is unable to predict the ultimate outcome of these reviews, the Company believes its practices complied with applicable law, including the provisions of the Higher Education Act, the rules and regulations adopted by the Department of Education thereunder, and the Department's guidance regarding those rules and regulations.

United States ex rel Oberg v. Nelnet, Inc. et al

On September 28, 2009, the Company was served with a Summons and First Amended Complaint naming the Company as one of ten defendants in a "qui tam" action brought by Jon H. Oberg on behalf of the United States of America. Qui tam actions assert claims by an individual on behalf of the federal government, and are filed under seal until the government decides, if at all, to intervene in the case.

An original complaint in the action was filed under seal in the U.S. District Court for the Eastern District of Virginia on September 21, 2007, and was unsealed on August 26, 2009 upon the government's filing of a Notice of Election to Decline Intervention in the matter. The First Amended Complaint (the "Oberg Complaint") was filed on August 24, 2009 and alleges the defendant student loan lenders submitted false claims for payment to the Department of Education in order to obtain special allowance payments on certain student loans at a rate of 9.5%, which the Oberg Complaint alleges is in excess of amounts permitted by law. The Oberg Complaint seeks the imposition of civil penalties and treble the amount of damages sustained by the government in connection with the alleged overbilling by the defendants for special allowance payments. The Oberg Complaint alleges that approximately $407 million in unlawful 9.5% special allowance payment claims were submitted by the Company to the Department of Education.

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NELNET, INC. AND SUBSIDIARIES
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The 9.5% special allowance payments received by the Company were disclosed by the Company on multiple occasions beginning in 2003. In January, 2007, the Company entered into the Settlement Agreement. The Settlement Agreement resolved the issues now raised by the Oberg Complaint, and contains an acknowledgment by the Department of Education that the Company acted in good faith in connection with its billings for 9.5% special allowance payments.

The Company believes the allegations in the above qui tam action to be frivolous and without merit and intends to vigorously defend the claim. However, the Company cannot currently predict the ultimate outcome of these matters or any liability which may result, which could have a material adverse effect on the Company's results of operations and financial condition.

United States ex rel Vigil v. Nelnet, Inc. et al

On November 4, 2009, the Company was served with a Summons and Third Amended Complaint naming the Company as one of three defendants in an unrelated qui tam action brought by Rudy Vigil (the "Vigil Complaint"). This matter was filed under seal in the U.S. District Court for the District of Nebraska on July 11, 2007 and was unsealed on October 15, 2009 following the government's notice that it declined to intervene in the matter. The Vigil Complaint, filed by a former employee of the Company, appears to allege that the Company engaged in false advertising and offered prohibited inducements to student loan borrowers in order to increase the Company's loan holdings, and subsequently submitted false claims to the Department of Education in order to obtain special allowance payments and default claim payments on such loans.

The Company believes the allegations in the above qui tam action to be frivolous and without merit and intends to vigorously defend the claim. However, the Company cannot currently predict the ultimate outcome of these matters or any liability which may result, which could have a material adverse effect on the Company's results of operations and financial condition.

21. Related Parties

During 2008, the Company sold approximately $535 million of FFELP student loans (the "FFELP Loans") to Union Bank & Trust Company, an entity under common control with the Company. These loans were sold for a purchase price of 100 percent of the outstanding unpaid principal balance plus accrued and unpaid borrower interest. The Company recognized a loss on this loan sale of $3.9 million, which represented unamortized loan costs on this portfolio.

Including the loans sold in this transaction, Union Bank may purchase up to $750 million in FFELP loans from the Company in accordance with an affiliate transaction exemption granted by the Federal Reserve Board. In connection with the exemption and the loan purchase by Union Bank, an Assurance Commitment Agreement (the "Commitment Agreement") was also entered into, by and among, the Company, Union Bank, and Michael S. Dunlap, the Company's Chairman, Chief Executive Officer, and a principal shareholder of the Company. Per the terms of the Commitment Agreement, the Company provided certain assurances to Union Bank designed to mitigate potential losses related to the FFELP Loans, including holding amounts in escrow equal to the unguaranteed portion and reimbursing Union Bank for losses, if any, related to the portfolio. As of December 31, 2009 and 2008, the Company held $13.9 million and $14.3 million, respectively, in escrow related to this agreement. As part of this agreement, the Company is obligated to buy back 30 days delinquent loans; in 2009, the Company bought back from Union Bank $36.9 million in loans related to this obligation.

During 2009, the Company sold $76.4 million of loans to Union Bank under this $750 million exemption. The Company recognized a loss on this loan sale of $0.8 million, which represented unamortized costs on this portfolio.

On February 4, 2005, the Company entered into an agreement to amend certain existing contracts with Union Bank. Under the agreement, Union Bank committed to transfer to the Company substantially all of the remaining balance of Union Bank's origination rights in guaranteed student loans to be originated in the future, except for student loans previously committed for sale to others. Union Bank will continue to originate student loans, and such guaranteed student loans not previously committed for sale to others are to be sold by Union Bank to the Company in the future. Union Bank also granted to the Company exclusive rights as marketing agent for student loans on behalf of Union Bank.

The Company serviced loans for Union Bank of $539.8 million and $533.1 million as of December 31, 2009 and 2008, respectively. Income earned by the Company from servicing loans for Union Bank was $1.9 million for the year ended December 31, 2009, and $0.3 million for each of the years ended 2008 and 2007. As of December 31, 2009 and 2008, accounts receivable includes $0.2 million from Union Bank for loan servicing. The loan servicing terms with Union Bank were similar to those terms with unrelated entities. On November 25, 2008, the Company entered into an additional loan servicing agreement with Union Bank to service the FFELP Loans. Under this agreement the Company will receive a servicing fee of 34 basis points per year related to the FFELP Loans. Fees received in conjunction with this agreement are included in the servicing income for the years ended December 31, 2009 and 2008 noted above.

During the years ended December 31, 2009, 2008, and 2007, the Company purchased student loans of $47.6 million (which includes loans purchased under the Commitment Agreement as discussed previously), $208.0 million, and $252.5 million, respectively, from Union Bank. For the years ended December 31, 2008 and 2007, premiums paid on these loans totaled $4.9 million and $8.5 million, respectively. No premiums were paid for loans purchased during 2009. The purchases from Union Bank were made on terms similar to those made with unrelated entities.

The Company has sold to Union Bank, as trustee, participation interests in FFELP loans with balances of $613.3 million and $548.4 million as of December 31, 2009 and 2008, respectively (see note 8).

The Company participates in the Short term Federal Investment Trust ("STFIT") of the Student Loan Trust Division of Union Bank, which is included in "cash and cash equivalents - held at a related party" and "restricted cash - due to customers" on the accompanying consolidated balance sheets. As of December 31, 2009 and 2008, the Company had $387.8 million and $200.8 million, respectively, invested in the STFIT or deposited at Union Bank in operating accounts, of which $61.9 million and $24.1 million as of December 31, 2009 and 2008, respectively, represented cash collected for customers. The Company's participation in the STFIT had similar terms and investment yields as those prevailing for other nonaffiliated customers. Interest income earned by the Company on the amounts invested in the STFIT for the years ended December 31, 2009, 2008, and 2007 was $2.9 million, $3.9 million, and $7.0 million, respectively.

On October 13, 2006, the Company purchased its corporate headquarters building and assumed certain existing lease agreements pursuant to which Union Bank leases office and storage space. The leases assumed by the Company provided for the lease to Union Bank of a total of approximately 15,000 square feet through June 30, 2008. The lease was amended to reduce the space leased to 4,000 square feet. Union Bank paid the Company approximately $70,000, $141,000, and $173,000 for commercial rent and storage income during 2009, 2008, and 2007, respectively. The amended lease agreement expires on June 30, 2018.

In December 2007, the Company sold a building to Union Bank for $600,000. Prior to the sale, the Company leased office space in that building to Union Bank for a total rental amount of approximately $34,000 during 2007. The Company recognized a gain of approximately $431,000 upon sale of the building.

The Company paid Union Bank $0.7 million, $0.2 million, and $0.2 million during the years ended December 31, 2009, 2008, and 2007, respectively, for payroll costs, reimbursement of FDIC insurance fees (beginning in 2009), certain cash management services, and miscellaneous fees and commissions.

During the years ended December 31, 2009, 2008, and 2007, Union Bank paid the Company $0.1 million, $0.2 million, and $0.2 million, respectively, for consulting services. In addition, Union Bank reimbursed the Company $3.4 million, $4.6 million, and $3.1 million during the years ended December 31, 2009, 2008, and 2007, respectively, for marketing services and fees related to the Illinois and Nebraska College Savings Plans.

On May 31, 2007, the Company entered into an agreement with Packers Service Group, Inc. (“Packers”), under which the Company agreed to acquire Packers in exchange for the issuance of 10,594,178 shares of the Company’s Class A common stock to the shareholders of Packers. Packers was owned by 30 individual shareholders, the most significant of whom included Michael S. Dunlap, an executive officer, member of the Board of Directors, and a substantial shareholder of the Company, and Angela L. Muhleisen, a substantial shareholder of the Company and a sister of Mr. Dunlap. Packers was primarily a holding company, whose principal asset was an investment in 11,068,604 shares of the Company’s Class A common stock. Upon acquisition, these shares are not included in total shares outstanding for accounting purposes. Packers also owned all of the outstanding capital stock of First National Life Insurance Company of the USA (“First National Life”), which writes credit life and credit accident and health insurance policies. First National Life’s net assets as of May 31, 2007 were $1.6 million. In addition, Packers had outstanding debt of $14.1 million, which the Company assumed. The Company accounted for this transaction as exchanges of assets or equity instruments between enterprises under common control and, accordingly, recorded the assets acquired and liabilities assumed from this transaction at Packer’s historical carrying values. This transaction resulted in a $12.5 million decrease to the Company’s consolidated shareholders’ equity and a decrease of 474,426 shares of the Company’s Class A common stock outstanding.

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22. Segment Reporting

The Company has five operating segments as follows: Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, Enrollment Services, Software and Technical Services, and Asset Generation and Management. The Company's operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. The accounting policies of the Company's operating segments are the same as those described in the summary of significant accounting policies. Intersegment revenues are charged by a segment to another segment that provides the product or service. Intersegment revenues and expenses are included within each segment consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information.

The management reporting process measures the performance of the Company's operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. Management, including the Company's chief operating decision maker, evaluates the performance of the Company's operating segments based on their profitability. As discussed further below, management measures the profitability of the Company's operating segments based on "base net income." Accordingly, information regarding the Company's operating segments is provided based on "base net income." The Company's "base net income" is not a defined term within generally accepted accounting principles ("GAAP") and may not be comparable to similarly titled measures reported by other companies. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting.

In May 2007, the Company sold EDULINX, a Canadian student loan service provider and subsidiary of the Company. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations for all periods presented. The operating results of EDULINX were included in the Student Loan and Guaranty Servicing operating segment. The Company presents "base net income" excluding discontinued operations since the operations and cash flows of EDULINX have been eliminated from the ongoing operations of the Company. Therefore, the results of operations for the Student Loan and Guaranty Servicing segment exclude the operating results of EDULINX for all periods presented. See note 2 for additional information concerning EDULINX's detailed operating results that have been segregated from continuing operations and reported as discontinued operations.

Historically, the Company generated the majority of its revenue from net interest income earned in its Asset Generation and Management operating segment. The Company made several acquisitions that have expanded the Company's products and services and have diversified its revenue – primarily from fee-based businesses. The Company currently offers a broad range of pre-college, in-college, and post-college products and services to students, families, schools, and financial institutions. These products and services help students and families plan and pay for their education and students plan their careers. The Company's products and services are designed to simplify the education planning and financing process and are focused on providing value to students, families, and schools throughout the education life cycle. The Company continues to diversify its sources of revenue, including those generated from businesses that are not dependent upon government programs, thereby reducing legislative and political risk.

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Fee-Based Operating Segments

Student Loan and Guaranty Servicing

The Student Loan and Guaranty Servicing operating segment provides for the servicing of the Company's student loan portfolios and the portfolios of third parties and servicing provided to guaranty agencies. The loan servicing activities include loan origination activities, application processing, borrower updates, payment processing, due diligence procedures, and claim processing. These activities are performed internally for the Company's portfolio in addition to generating fee revenue when performed for third-party clients. The guaranty servicing activities include providing software and data center services, borrower and loan updates, default aversion tracking services, claim processing services, and post-default collection services to guaranty agencies. The following are the primary product and service offerings the Company offers as part of its Student Loan and Guaranty Servicing segment:

- Origination and servicing of FFELP loans
- Origination and servicing of non-federally insured student loans
- Servicing and support outsourcing for guaranty agencies

In June 2009, the Department of Education named the Company as one of four private sector companies awarded a servicing contract to service all federally-owned student loans, including FFELP loans purchased by the Department pursuant to ECASLA. No later than August 2010, the Company expects to also begin servicing new loans originated under the Direct Loan Program. The contract spans five years with one, five-year renewal option. Servicing loans under this contract will increase revenue earned by this segment. However, operating margins under this contract are expected to be lower than historical levels achieved.

Tuition Payment Processing and Campus Commerce

The Tuition Payment Processing and Campus Commerce operating segment provides products and services to help institutions and education-seeking families manage the payment of education costs during the pre-college and college stages of the education life cycle. The Company provides actively managed tuition payment solutions, online payment processing, detailed information reporting, financial needs analysis, and data integration services to K-12 and higher educational institutions, families, and students. In addition, the Company provides customer-focused electronic transactions, information sharing, and account and bill presentment to colleges and universities.

Enrollment Services

The Enrollment Services operating segment offers products and services that are focused on helping colleges recruit and retain students (lead generation and recruitment services) and helping students plan and prepare for life after high school (content management and publishing and editing services). Lead generation products and services include vendor lead management services and admissions lead generation. Recruitment services include pay per click marketing management, email marketing, list marketing services, and admissions consulting. Content management products and services include online courses and related services. Publishing and editing services include test preparation study guides and essay and resume editing services.

Software and Technical Services

The Company's Software and Technical Services operating segment develops student loan servicing software, which is used internally by the Company and also licensed to third-party student loan holders and servicers. This segment also provides information technology products and services, with core areas of business in educational loan software solutions, legacy modernization, technical consulting services, and Enterprise Content Management solutions.

Asset Generation and Management Operating Segment

The Asset Generation and Management operating segment includes the acquisition, management, and ownership of the Company’s student loan assets. Revenues are primarily generated from the Company’s earnings from the spread, referred to as the Company’s student loan spread, between the yield received on the student loan portfolio and the costs associated with originating, acquiring, and financing its student loan portfolio. The Company generates student loan assets through direct origination or through acquisitions. The student loan assets are held in a series of education lending subsidiaries designed specifically for this purpose. In addition to the student loan portfolio, all costs and activity associated with the generation of assets, funding of those assets, and maintenance of the debt transactions are included in this segment. This includes derivative activity and the related derivative market value and foreign currency adjustments.

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Segment Operating Results – "Base Net Income"

The tables below include the operating results of each of the Company's operating segments for the years ended December 31, 2009, 2008, and 2007. Management, including the chief operating decision maker, evaluates the Company on certain non-GAAP performance measures that the Company refers to as "base net income" for each operating segment. While "base net income" is not a substitute for reported results under GAAP, the Company relies on "base net income" to manage each operating segment because it believes this measure provides additional information regarding the operational and performance indicators that are most closely assessed by management.

"Base net income" is the primary financial performance measure used by management to develop the Company's financial plans, track results, and establish corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the core business activities of the Company's operating segments. Accordingly, the tables presented below reflect "base net income," which is the operating measure reviewed and utilized by management to manage the business. Reconciliation of the segment totals to the Company's operating results in accordance with GAAP are also included in the tables below.

Certain amounts previously reported have been reclassified to conform to the current period presentation. The reclassifications were made to change the income statement presentation to provide the users of the financial statements additional information related to the operating results of the Company's fee-based businesses, which are becoming more significant to the Company's operations. These reclassifications include reclassifying "tuition payment processing and campus commerce revenue" and "enrollment services revenue," which were previously included in "other fee-based income." In addition, the "cost to provide enrollment services" was reclassified from various operating expense accounts, primarily "advertising and marketing."

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Segment Results and Reconciliations to GAAP

	2009								
	Fee-Based								
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations and Reclassifications	"Ba ne incon Adjustr to GA Resu
Total interest income	$112	62	—	—	174	609,143	5,391	(2,003)	7,50
Interest expense	—	—	—	—	—	357,930	28,935	(2,003)	—
Net interest income (loss)	112	62	—	—	174	251,213	(23,544)	—	7,50
Less provision for loan losses	—	—	—	—	—	29,000	—	—	—
Net interest income (loss) after provision for loan losses	112	62	—	—	174	222,213	(23,544)	—	7,50
Other income (expense):									
Loan and guaranty servicing revenue	110,273	—	—	—	110,273	—	(1,526)	—	—
Tuition payment processing and campus commerce revenue	—	53,894	—	—	53,894	—	—	—	—
Enrollment services revenue	—	—	119,397	—	119,397	—	—	—	—
Software services	3,701	—	—	17,463	21,164	—	—	—	—

revenue									
Other income	644	—	—	—	644	45,697	21,811	—	—
Gain (loss) on sale of loans, net	—	—	—	—	—	35,148	—	—	—
Intersegment revenue	85,104	237	555	14,586	100,482	—	33,469	(133,951)	—
Derivative market value, foreign currency, and put option adjustments	—	—	—	—	—	—	—	—	(30,8
Derivative settlements, net	—	—	—	—	—	39,286	—	—	—
Total other income (expense)	199,722	54,131	119,952	32,049	405,854	120,131	53,754	(133,951)	(30,8
Operating expenses:									
Salaries and benefits	54,289	25,549	23,222	21,978	125,038	6,767	24,777	(1,209)	159
Restructure expense-severance and contract termination costs	5,964	—	—	936	6,900	—	1,082	(7,982)	—
Impairment expense	—	—	32,728	—	32,728	—	—	—	—
Cost to provide enrollment services	—	—	74,926	—	74,926	—	—	—	—
Other expenses	35,391	9,642	13,226	3,330	61,589	19,566	35,307	3,736	22,2
Intersegment expenses	37,039	2,800	2,121	2,867	44,827	81,335	2,334	(128,496)	—
Total operating expenses	132,683	37,991	146,223	29,111	346,008	107,668	63,500	(133,951)	22,4
Income (loss) before income taxes	67,151	16,202	(26,271)	2,938	60,020	234,676	(33,290)	—	(45,7
Income tax (expense)	(25,518)	(6,156)	9,984	(1,118)	(22,808)	(89,178)	19,186	—	16,2

benefit (a)									
Net income (loss) from continuing operations	41,633	10,046	(16,287)	1,820	37,212	145,498	(14,104)	—	(29,
Income from discontinued operations, net of tax	—	—	—	—	—	—	—	—	—
Net income (loss)	$41,633	10,046	(16,287)	1,820	37,212	145,498	(14,104)	—	(29,
Total assets	$134,264	114,581	76,140	12,266	337,251	25,899,946	12,201	(372,971)	—

(a) Income taxes are applied based on 38% of income (loss) before taxes for the individual operating segments.

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

	2008									
	Fee-Based									
	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations and Reclassifications	"Base net income" Adjustments to GAAP Results	GAAP Results o Operation
l interest me	$1,377	1,689	17	24	3,107	1,164,329	6,810	(2,190)	42,325	1,214,38
est nse	—	—	—	—	—	986,556	42,123	(2,190)	—	1,026,48
nterest me (loss)	1,377	1,689	17	24	3,107	177,773	(35,313)	—	42,325	187,892
ision for losses	—	—	—	—	—	25,000	—	—	—	25,000
nterest me (loss) ision oan es	1,377	1,689	17	24	3,107	152,773	(35,313)	—	42,325	162,892
r me ense):										
n and anty icing nue	99,916	—	—	—	99,916	26	—	—	—	99,942
on nent essing campus merce nue	—	48,155	—	—	48,155	—	—	—	—	48,155
llment ces nue	—	—	112,405	—	112,405	—	—	—	—	112,405
ware ces nue	4,371	—	37	19,707	24,115	—	—	—	—	24,115

r me	51	—	—	—	51	17,401	5,323	—	—	22,775
(loss) ale of s	—	—	—	—	—	(53,035)	1,621	—	—	(51,414
segment nue	75,361	302	2	6,831	82,496	—	63,384	(145,880)	—	—
vative ket value, gn ency, put on stments	—	—	—	—	—	466	—	—	10,361	10,827
vative ements,	—	—	—	—	—	65,622	—	—	(9,965)	55,657
l other me ense)	179,699	48,457	112,444	26,538	367,138	30,480	70,328	(145,880)	396	322,462
rating nses:										
ries and fits	51,320	23,290	24,379	18,081	117,070	8,316	54,910	98	2,999	183,393
ructure nse - rance ract ination s	747	—	282	487	1,516	1,845	3,706	(7,067)	—	—
airment nse	5,074	—	—	—	5,074	9,351	4,409	—	—	18,834
to ide llment ces	—	—	64,965	—	64,965	—	—	—	—	64,965
r nses	33,922	9,879	11,224	2,489	57,514	35,679	53,975	24	26,230	173,422
segment nses	47,737	1,397	6,641	2,323	58,098	77,105	3,732	(138,935)	—	—
l ating nses	138,800	34,566	107,491	23,380	304,237	132,296	120,732	(145,880)	29,229	440,614
me) before me taxes	42,276	15,580	4,970	3,182	66,008	50,957	(85,717)	—	13,492	44,740
me tax ense)	(14,321)	(5,175)	(1,730)	(1,021)	(22,247)	(18,356)	28,499	—	(5,792)	(17,896

fit (a)										
ncome) from nuing ations	27,955	10,405	3,240	2,161	43,761	32,601	(57,218)	—	7,700	26,844
me from ontinued ations, f tax	—	—	—	—	—	—	—	—	1,818	1,818
ncome)	$27,955	10,405	3,240	2,161	43,761	32,601	(57,218)	—	9,518	28,662
l assets	$245,202	128,657	120,961	14,428	509,248	27,724,122	106,965	(485,438)	—	27,854,89

ncome taxes are applied to each operating segment based on the consolidated effective tax rate ne period.

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

	2007									
		Fee-Based Tuition								
	Student Loan and Guaranty Servicing	Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Total Fee-Based	Asset Generation and Management	Corporate Activity and Overhead	Eliminations and Reclassifications	"Base net income" Adjustments to GAAP Results	GAAP Results o Operatio
interest ne	$5,459	3,809	347	18	9,633	1,730,882	7,485	(3,737)	3,013	1,747,27
est nse	—	7	7	—	14	1,465,883	40,502	(3,737)	—	1,502,66
nterest ne (loss)	5,459	3,802	340	18	9,619	264,999	(33,017)	—	3,013	244,614
sion for losses	—	—	—	—	—	28,178	—	—	—	28,178
nterest ne (loss) sion oan s	5,459	3,802	340	18	9,619	236,821	(33,017)	—	3,013	216,436
r ne ense):										
and anty cing ue	122,086	—	—	—	122,086	294	—	—	—	122,380
on nent essing campus nerce ue	—	42,766	—	—	42,766	—	—	—	—	42,766
llment ces ue	—	—	103,905	—	103,905	—	—	—	—	103,905
vare ces ue	5,689	—	—	22,075	27,764	—	—	—	—	27,764

r me	—	—	—	—	—	17,820	12,603	—	—	30,423
(loss) le of	—	—	—	—	—	3,597	—	—	—	3,597
segment ue	74,687	688	891	15,683	91,949	—	9,040	(100,989)	—	—
vative et value, gn ncy, out n tments	—	—	—	—	—	—	—	—	26,806	26,806
vative ments,	—	—	—	—	—	6,628	12,049	—	—	18,677
other ne ense)	202,462	43,454	104,796	37,758	388,470	28,339	33,692	(100,989)	26,806	376,318
ating nses:										
ies and fits	85,462	20,426	33,480	23,959	163,327	23,101	49,839	(1,747)	2,111	236,631
ructure nse- rance act nation	1,840	—	929	58	2,827	2,406	4,998	(10,231)	—	—
irment nse	—	—	11,401	—	11,401	28,291	9,812	—	—	49,504
to de lment ces	—	—	45,408	—	45,408	—	—	—	—	45,408
r nses	36,618	8,901	15,037	2,995	63,551	29,205	77,915	2,969	30,426	204,066
segment nses	10,552	364	335	775	12,026	74,714	5,240	(91,980)	—	—
ting nses	134,472	29,691	106,590	27,787	298,540	157,717	147,804	(100,989)	32,537	535,609
me) before me taxes	73,449	17,565	(1,454)	9,989	99,549	107,443	(147,129)	—	(2,718)	57,145
me tax ense)	(27,910)	(6,675)	553	(3,796)	(37,828)	(40,828)	57,285	—	(345)	(21,716

fit (a)										
ncome) from nuing ations	45,539	10,890	(901)	6,193	61,721	66,615	(89,844)	—	(3,063)	35,429
me) from ntinued ations, f tax	—	—	—	—	—	—	—	—	(2,575)	(2,575
ncome)	$45,539	10,890	(901)	6,193	61,721	66,615	(89,844)	—	(5,638)	32,854
assets	$206,008	119,084	121,202	21,186	467,480	28,696,640	48,147	(49,484)	—	29,162,7

ncome taxes are based on 38% of net income (loss) before tax for the idual operating segment.

Corporate Activity and Overhead in the previous tables primarily includes the following items:

- Income earned on certain investment activities
- Interest expense incurred on unsecured debt transactions
- Other products and service offerings that are not considered operating segments
- Certain corporate activities and unallocated overhead functions related to executive management, human resources, accounting and finance, legal, marketing, and corporate technology support

The assets held at the corporate level are not identified with any of the operating segments. Accordingly, these assets are included in the reconciliation of segment assets to total consolidated assets. These assets consist primarily of cash, investments, property and equipment, and other assets.

The adjustments required to reconcile from the Company's "base net income" measure to its GAAP results of operations relate to differing treatments for derivatives, foreign currency transaction adjustments, and certain other items that management does not consider in evaluating the Company's operating results. The following tables reflect adjustments associated with these areas by operating segment and Corporate Activity and Overhead for the years ended December 31, 2009, 2008, and 2007:

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

	Student Loan and Guaranty Servicing	Tuition Payment Processing and Campus Commerce	Enrollment Services	Software and Technical Services	Asset Generation and Management	Corporate Activity and Overhead	Total
				2009			
Derivative market value, foreign currency, and put option adjustments (1)	$ —	—	—	—	34,569	(3,767)	30,802
Amortization of intangible assets (2)	4,315	7,440	9,961	533	—	—	22,249
Compensation related to business combinations (3)	—	—	—	—	—	159	159
Variable-rate floor income, net of settlements on derivatives (4)	—	—	—	—	(7,502)	—	(7,502)
Income from discontinued operations, net of tax (5)	—	—	—	—	—	—	—
Net tax effect (6)	(1,640)	(2,827)	(3,787)	(202)	(10,285)	2,514	(16,227)
Total adjustments to GAAP	$ 2,675	4,613	6,174	331	16,782	(1,094)	29,481
	2008						
Derivative market value, foreign currency, and put option adjustments (1)	$ —	—	—	—	(13,844)	3,483	(10,361)
Amortization of intangible assets (2)	4,751	7,826	12,451	1,057	145	—	26,230
Compensation related to business combinations (3)	—	—	—	—	—	2,999	2,999
Variable-rate floor income, net of settlements on derivatives (4)	—	—	—	—	(32,360)	—	(32,360)
	(1,818)	—	—	—	—	—	(1,818)

Income from discontinued operations, net of tax (5)							
Net tax effect (6)	(1,590)	(2,615)	(4,185)	(354)	16,770	(2,234)	5,792
Total adjustments to GAAP	$ 1,343	5,211	8,266	703	(29,289)	4,248	(9,518)
	2007						
Derivative market value, foreign currency, and put option adjustments (1)	$ —	—	—	—	(24,224)	(2,582)	(26,806)
Amortization of intangible assets (2)	5,094	5,815	12,692	1,191	5,634	—	30,426
Compensation related to business combinations (3)	—	—	—	—	—	2,111	2,111
Variable-rate floor income, net of settlements on derivatives (4)	—	—	—	—	(3,013)	—	(3,013)
Income from discontinued operations, net of tax (5)	2,575	—	—	—	—	—	2,575
Net tax effect (6)	(1,936)	(2,209)	(4,823)	(452)	8,209	1,556	345
Total adjustments to GAAP	$ 5,733	3,606	7,869	739	(13,394)	1,085	5,638

(1) Derivative market value, foreign currency, and put option adjustments: "Base net income" excludes the periodic unrealized gains and losses that are caused by the change in fair value on derivatives used in the Company's risk management strategy in which the Company does not qualify for "hedge treatment" under GAAP. Included in "base net income" are the economic effects of the Company's derivative instruments, which includes any cash paid or received being recognized as an expense or revenue upon actual derivative settlements. "Base net income" also excludes the foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars and the change in fair value of put options issued by the Company for certain business acquisitions.

(2) Amortization of intangible assets: "Base net income" excludes the amortization of acquired intangibles.

(3) Compensation related to business combinations: The Company has structured certain business combinations in which the consideration paid has been dependent on the sellers' continued employment with the Company. As such, the value of the consideration paid is recognized as compensation expense by the Company over the term of the applicable employment agreement. "Base net income" excludes this expense.

(4) Variable-rate floor income: Loans that reset annually on July 1 can generate excess spread income compared with the rate based on the special allowance payment formula in declining interest rate environments. The Company

refers to this additional income as variable-rate floor income. The Company excludes variable-rate floor income, net of settlements paid on derivatives used to hedge student loan assets earning variable-rate floor income, from its "base net income" since the timing and amount of variable-rate floor income (if any) is uncertain, it has been eliminated by legislation for all loans originated on and after April 1, 2006, and it is in excess of expected spreads. In addition, because variable-rate floor income is subject to the underlying rate for the subject loans being reset annually on July 1, it is a factor beyond the Company's control which can affect the period-to-period comparability of results of operations.

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

The Company has used derivative instruments to hedge variable rate floor income during certain periods. During the year ended December 31, 2008, the Company made payments (settlements) of $10.0 million on such derivatives. These settlements are netted with variable-rate floor income and are excluded from "base net income."

(5) Discontinued operations: In May 2007, the Company sold EDULINX. As a result of this transaction, the results of operations for EDULINX are reported as discontinued operations for all periods presented. The Company presents "base net income" excluding discontinued operations since the operations and cash flows of EDULINX have been eliminated from the ongoing operations of the Company.

(6) For 2009 and 2007, income taxes are applied based on 38% of income (loss) before income taxes for the individual operating segments. For 2008, income taxes for each individual operating segment are applied based on the consolidated effective tax rate.

23. Quarterly Financial Information (Unaudited)

	2009			
	First quarter	Second quarter	Third quarter	Fourth quarter
Net interest income	$28,508	57,107	69,182	80,548
Less provision for loan losses	7,500	8,000	7,500	6,000
Net interest income after provision for loan losses	21,008	49,107	61,682	74,548
Other income	93,347	87,044	85,357	105,606
Gain (loss) on sale of loans	(206)	(196)	8,788	26,762
Derivative market value, foreign currency, and put option adjustments				
and derivative settlements, net	19,478	(24,478)	7,740	5,744
Operating expenses	(92,571)	(97,356)	(92,662)	(90,316)
Impairment expense	—	—	—	(32,728)
Income tax (expense) benefit	(15,601)	(5,918)	(24,501)	(30,553)
Income (loss) from continuing operations	25,455	8,203	46,404	59,063
Income (loss) from discontinued operations, net of tax	—	—	—	—
Net income (loss)	$25,455	8,203	46,404	59,063
Earnings per common share:				
Basic:				
Continuing operations	$0.52	0.16	0.93	1.18
Discontinued operations	—	—	—	—
Net earnings	$0.52	0.16	0.93	1.18
Diluted:				
Continuing operations	$0.52	0.16	0.93	1.18
Discontinued operations	—	—	—	—
Net earnings	$0.52	0.16	0.93	1.18

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

	2008			
	First quarter	Second quarter	Third quarter	Fourth quarter
Net interest income	$16,525	73,338	59,570	38,459
Less provision for loan losses	5,000	6,000	7,000	7,000
Net interest income after provision for loan losses	11,525	67,338	52,570	31,459
Other income	80,188	72,263	81,979	72,962
Gain (loss) on sale of loans	(47,474)	48	—	(3,988)
Derivative market value, foreign currency, and put option adjustments				
and derivative settlements, net	(16,598)	20,192	6,874	56,016
Operating expenses	(110,003)	(97,922)	(103,669)	(110,186)
Impairment expense	(18,834)	—	—	—
Income tax (expense) benefit	31,371	(19,195)	(13,969)	(16,103)
Income (loss) from continuing operations	(69,825)	42,724	23,785	30,160
Income (loss) from discontinued operations, net of tax	—	981	—	837
Net income (loss)	$(69,825)	43,705	23,785	30,997
Earnings per common share:				
Basic:				
Continuing operations	$(1.41)	0.86	0.48	0.61
Discontinued operations	—	0.02	—	0.02
Net earnings	$(1.41)	0.88	0.48	0.63
Diluted:				
Continuing operations	$(1.41)	0.86	0.48	0.61
Discontinued operations	—	0.02	—	0.02
Net earnings	$(1.41)	0.88	0.48	0.63

24. Condensed Parent Company Financial Statements

The following represents the condensed balance sheets as of December 31, 2009 and 2008 and condensed statements of income and cash flows for each of the years in the three-year period ended December 31, 2009 for Nelnet, Inc.

The Company is limited in the amount of funds that can be transferred to it by its subsidiaries through intercompany loans, advances, or cash dividends. These limitations relate to the restrictions by trust indentures under the education lending subsidiaries debt financing arrangements. The amounts of cash and investments restricted in the respective reserve accounts of the education lending subsidiaries are shown on the consolidated balance sheets as restricted cash and investments.

NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Balance Sheets
(Parent Company Only)
December 31, 2009 and 2008

		2009	2008
Assets:			
Cash and cash equivalents	$	120,332	130,394
Restricted cash		—	17,607
Restricted cash - due to customers		64,952	132,336
Investment in subsidiaries		1,254,758	657,020
Intangible assets, net		—	28,168
Accounts receivable		34	13,447
Other assets		381,975	980,070
Total assets	$	1,822,051	1,959,042
Liabilities:			
Notes payable	$	937,586	1,166,500
Accrued interest payable		4,329	5,232
Other liabilities		30,621	11,748
Due to customers		64,952	132,336
Total liabilities		1,037,488	1,315,816
Shareholders' equity:			
Common stock		499	493
Additional paid-in capital		109,359	103,762
Retained earnings		676,154	540,521
Employee notes receivable		(1,449)	(1,550)
Total shareholders' equity		784,563	643,226
Total liabilities and shareholders' equity	$	1,822,051	1,959,042

Statements of Income
(Parent Company Only)
Years ended December 31, 2009, 2008, and 2007

	2009	2008	2007
Operating revenues	$57,029	133,942	220,985
Operating expenses	4,428	104,803	143,329
Net operating income	52,601	29,139	77,656
Net interest income (expense)	4,680	(8,030)	(31,429)
Derivative market value, foreign currency, and put option adjustments and derivative settlements, net	34,901	14,406	35,581
Equity in earnings (loss) of subsidiaries	101,373	5,445	(14,243)

Income tax expense	54,430	14,116	32,136
Net income from continuing operations	139,125	26,844	35,429
Income (loss) on discontinued operations, net of tax	—	1,818	(2,575)
Net income	$139,125	28,662	32,854

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NELNET, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements – (Continued)
(Dollars in thousands, except per share amounts, unless otherwise noted)

Statements of Cash Flows
(Parent Company Only)
Years ended December 31, 2009, 2008, and 2007

	2009	2008	2007
Net income	$139,125	28,662	32,854
Income (loss) from discontinued operations	—	1,818	(2,575)
Income from continuing operations	139,125	26,844	35,429
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,264	5,477	7,606
Derivative market value adjustment	(4,207)	13,868	(13,818)
Proceeds from termination of derivative instruments	3,870	20,368	50,843
Payments to terminate derivative instruments	(15,069)	(16,367)	(8,100)
Impairment expense	—	2,448	8,643
Equity in (earnings) loss of subsidiaries	(101,373)	(5,445)	14,243
Gain on sale of equity method investment	—	—	(3,942)
Gain on purchase of debt	(26,137)	—	—
Non-cash compensation expense	2,644	7,320	6,686
Other non-cash items	—	4,133	(320)
Decrease in accounts receivable	13,413	9,006	3,613
Decrease (increase) in other assets	116,886	(542,104)	69,271
(Decrease) increase in accrued interest payable	(903)	79	(1,893)
(Decrease) increase in other liabilities	20,645	(8,992)	(5,099)
Net cash provided by (used in) operating activities	150,158	(483,365)	163,162
Cash flows from investing activities, net of business acquisitions:			
Decrease (increase) in restricted cash	17,607	(17,607)	—
Purchases of property and equipment, net	—	2,510	(9)
Distribution from equity method investment	—	—	747
Capital contributions to/from subsidiary, net	28,168	12,515	309,413
Business acquisitions - contingent consideration and purchase price adjustments, net	—	(18,000)	(4,950)
Proceeds from sale of equity method investment	—	—	10,000
Net cash provided by (used in) investing activities	45,775	(20,582)	315,201
Cash flows from financing activities:			
Payments on notes payable	(204,532)	(14,550)	(597,297)
Proceeds from issuance of notes payable	1,909	611,500	230,383
Payments of debt issuance costs	—	23	(114)
Dividends paid	(3,492)	(3,458)	(13,817)
Payment on settlement of put option	—	(9,600)	(15,875)
Proceeds from issuance of common stock	449	710	1,467
Repurchases of common stock	(430)	(1,536)	(76,648)
Payments received on employee stock notes receivable	101	575	432

Net cash provided by (used in) financing activities	(205,995)	583,664	(471,469)
Net (decrease) increase in cash and cash equivalents	(10,062)	79,717	6,894
Cash and cash equivalents, beginning of year	130,394	50,677	43,783
Cash and cash equivalents, end of year	$120,332	130,394	50,677

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APPENDIX A

Description of
The Federal Family Education Loan Program

The Federal Family Education Loan Program

The Higher Education Act provides for a program of federal insurance for student loans as well as reinsurance of student loans guaranteed or insured by state agencies or private non-profit corporations.

The Higher Education Act currently authorizes certain student loans to be covered under the Federal Family Education Loan Program ("FFELP"). The Higher Education Opportunity Act of 2008 extended the authorization for the Federal Family Education Loan Program through September 30, 2014. Congress has extended similar authorization dates in prior versions of the Higher Education Act. However, the current authorization dates may not again be extended and the other provisions of the Higher Education Act may not be continued in their present form.

Generally, a student is eligible for loans made under the Federal Family Education Loan Program only if he or she:

- has been accepted for enrollment or is enrolled in good standing at an eligible institution of higher education;
- is carrying or planning to carry at least one-half the normal full-time workload, as determined by the institution, for the course of study the student is pursuing;
- is not in default on any federal education loans;
- has not committed a crime involving fraud in obtaining funds under the Higher Education Act which funds have not been fully repaid; and
- meets other applicable eligibility requirements.

Eligible institutions include higher educational institutions and vocational schools that comply with specific federal regulations. Each loan is to be evidenced by an unsecured note.

The Higher Education Act also establishes maximum interest rates for each of the various types of loans. These rates vary not only among loan types, but also within loan types depending upon when the loan was made or when the borrower first obtained a loan under the Federal Family Education Loan Program. The Higher Education Act allows lesser rates of interest to be charged.

Types of loans

Four types of loans are currently available under the Federal Family Education Loan Program:

- Subsidized Stafford Loans
- Unsubsidized Stafford Loans
- PLUS Loans
- Consolidation Loans

These loan types vary as to eligibility requirements, interest rates, repayment periods, loan limits, and eligibility for interest subsidies and special allowance payments. Some of these loan types have had other names in the past. References to these various loan types include, where appropriate, their predecessors.

The primary loan under the Federal Family Education Loan Program is the Subsidized Stafford Loan. Students who are not eligible for Subsidized Stafford Loans based on their economic circumstances may be able to obtain Unsubsidized Stafford Loans. Graduate or professional students and parents of dependent undergraduate students may be able to obtain PLUS Loans. Consolidation Loans are available to borrowers with existing loans made under the Federal Family Education Loan Program and other federal programs to consolidate repayment of the borrower's existing loans. Prior to July 1, 1994, the Federal Family Education Loan Program also offered Supplemental Loans for Students ("SLS Loans") to graduate and professional students and independent undergraduate students and, under certain circumstances, dependent undergraduate students, to supplement their Stafford Loans.

Subsidized Stafford Loans

General. Subsidized Stafford Loans are eligible for insurance and reinsurance under the Higher Education Act if the eligible student to whom the loan is made has been accepted or is enrolled in good standing at an eligible institution of higher education or vocational school and is carrying at least one-half the normal full-time workload at that institution. Subsidized Stafford Loans have limits as to the maximum amount which may be borrowed for an academic year and in the aggregate for both undergraduate and graduate or professional study. Both annual and aggregate limitations exclude loans made under the PLUS Loan Program. The Secretary of Education has discretion to raise these limits to accommodate students undertaking specialized training requiring exceptionally high costs of education.

Subsidized Stafford Loans are made only to student borrowers who meet the needs tests provided in the Higher Education Act. Provisions addressing the implementation of needs analysis and the relationship between unmet need for financing and the availability of Subsidized Stafford Loan Program funding have been the subject of frequent and extensive amendment in recent years. Further amendment to such provisions may materially affect the availability of Subsidized Stafford Loan funding to borrowers or the availability of Subsidized Stafford Loans for secondary market acquisition.

Interest rates for Subsidized Stafford Loans. For Stafford Loans first disbursed to a “new” borrower (a “new” borrower is defined for purposes of this section as one who has no outstanding balance on a Federal Family Education Loan Program loan on the date the new promissory note is signed) for a period of enrollment beginning before January 1, 1981, the applicable interest rate is fixed at 7%.

For Stafford Loans first disbursed to a “new” borrower, for a period of enrollment beginning on or after January 1, 1981, but before September 13, 1983, the applicable interest rate is fixed at 9%.

For Stafford Loans first disbursed to a “new” borrower, for a period of enrollment beginning on or after September 13, 1983, but before July 1, 1988, the applicable interest rate is fixed at 8%.

For Stafford Loans first disbursed to a borrower with an outstanding balance on a PLUS, SLS, or Consolidation Loan, but not on a Stafford Loan, where the new loan is intended for a period of enrollment beginning before July 1, 1988, the applicable interest rate is fixed at 8%.

For Stafford Loans first disbursed before October 1, 1992, to a “new” borrower or to a borrower with an outstanding balance on a PLUS, SLS, or Consolidation Loan, but not a Stafford Loan, where the new loan is intended for a period of enrollment beginning on or after July 1, 1988, the applicable interest rate is as follows:

- Original fixed interest rate of 8% for the first 48 months of repayment. Beginning on the first day of the 49th month of repayment, the interest rate increased to a fixed rate of 10% thereafter. Loans in this category were subject to excess interest rebates and have been converted to a variable interest rate based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.25%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for loans in this category is 10%.

For Stafford Loans first disbursed on or after July 23, 1992, but before July 1, 1994, to a borrower with an outstanding Stafford Loan made with a 7%, 8%, 9%, or 8%/10% fixed interest rate, the original, applicable interest rate is the same as the rate provided on the borrower’s previous Stafford Loan (i.e., a fixed rate of 7%, 8%, 9%, or 8%/10%). Loans in this category were subject to excess interest rebates and have been converted to a variable interest rate based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for a loan in this category is equal to the loan’s previous fixed rate (i.e., 7%, 8%, 9%, or 10%).

For Stafford Loans first disbursed on or after October 1, 1992, but before December 20, 1993, to a borrower with an outstanding balance on a PLUS, SLS, or Consolidation Loan, but not on a Stafford Loan, the original, applicable interest rate is fixed at 8%. Loans in this category were subject to excess interest rebates and have been converted to a variable interest rate based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for a loan in this category is 8%.

For Stafford Loans first disbursed on or after October 1, 1992, but before July 1, 1994, to a "new" borrower, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for a loan in this category is 9%.

For Stafford Loans first disbursed on or after December 20, 1993, but before July 1, 1994, to a borrower with an outstanding balance on a PLUS, SLS, or Consolidation Loan, but not on a Stafford Loan, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for a loan in this category is 9%.

For Stafford Loans first disbursed on or after July 1, 1994, but before July 1, 1995, where the loan is intended for a period of enrollment that includes or begins on or after July 1, 1994, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate for a loan in this category is 8.25%.

For Stafford Loans first disbursed on or after July 1, 1995, but before July 1, 1998, the applicable interest rate is as follows:

- When the borrower is in school, in grace, or in an authorized period of deferment, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 2.5%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 8.25%.

- When the borrower is in repayment or in a period of forbearance, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 8.25%.

For Stafford Loans first disbursed on or after July 1, 1998, but before July 1, 2006, the applicable interest rate is as follows:

- When the borrower is in school, in grace, or in an authorized period of deferment, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 1.7%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 8.25%.

- When the borrower is in repayment or in a period of forbearance, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1, plus 2.3%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 8.25%.

For Stafford Loans first disbursed on or after July 1, 2006, the applicable interest rate is fixed at 6.80%. However, for Stafford Loans for undergraduates, the applicable interest rate is reduced in phases for which the first disbursement is made on or after:

- July 1, 2008 and before July 1, 2009, the applicable interest rate is fixed at 6.00%,
- July 1, 2009 and before July 1, 2010, the applicable interest rate will be fixed at 5.60%,
- July 1, 2010 and before July 1, 2011, the applicable interest rate will be fixed at 4.50%,
- July 1, 2011 and before July 1, 2012, the applicable interest rate will be fixed at 3.40%.

Interest rates for Stafford Loans made to undergraduate borrowers first disbursed on or after July 1, 2012, will revert to 6.80%.

Unsubsidized Stafford Loans

General. The Unsubsidized Stafford Loan program was created by Congress in 1992 for students who do not qualify for Subsidized Stafford Loans due to parental and/or student income and assets in excess of permitted amounts. These students are entitled to borrow the difference between the Stafford Loan maximum for their status (dependent or independent) and their Subsidized Stafford Loan eligibility through the Unsubsidized Stafford Loan Program. The general requirements for Unsubsidized Stafford Loans, including special allowance payments, are essentially the same as those for Subsidized Stafford Loans. However, the terms of the Unsubsidized Stafford Loans differ materially from Subsidized Stafford Loans in that the federal government will not make interest subsidy payments and the loan limitations are determined without respect to the expected family contribution. The borrower will be required to either pay interest from the time the loan is disbursed or the accruing interest will be capitalized when repayment begins and during periods of deferment and forbearance. Unsubsidized Stafford Loans were not available before October 1, 1992. A student meeting the general eligibility requirements for a loan under the Federal Family Education Loan Program is eligible for an Unsubsidized Stafford Loan without regard to need.

Interest rates for Unsubsidized Stafford Loans. Unsubsidized Stafford Loans are subject to the same interest rate provisions as Subsidized Stafford Loans, with the exception of Unsubsidized Stafford Loans first disbursed on or after July 1, 2008, which retain a fixed interest rate of 6.80%.

PLUS Loans

General. PLUS Loans are made to parents, and under certain circumstances spouses of remarried parents, of dependent undergraduate students. Effective July 1, 2006, graduate and professional students are eligible borrowers under the PLUS Loan program. For PLUS Loans made on or after July 1, 1993, the borrower must not have an adverse credit history as determined by criteria established by the Secretary of Education. The basic provisions applicable to PLUS Loans are similar to those of Stafford Loans with respect to the involvement of guarantee agencies and the Secretary of Education in providing federal insurance and reinsurance on the loans. However, PLUS Loans differ significantly, particularly from the Subsidized Stafford Loans, in that federal interest subsidy payments are not available under the PLUS Loan Program and special allowance payments are more restricted.

Interest rates for PLUS Loans. For PLUS Loans first disbursed on or after January 1, 1981, but before October 1, 1981, the applicable interest rate is fixed at 9%.

For PLUS Loans first disbursed on or after October 1, 1981, but before November 1, 1982, the applicable interest rate is fixed at 14%.

For PLUS Loans first disbursed on or after November 1, 1982, but before July 1, 1987, the applicable interest rate is fixed at 12%.

Beginning July 1, 2001, for PLUS Loans first disbursed on or after July 1, 1987, but before October 1, 1992, the applicable interest rate is variable and is based on the weekly average one-year constant maturity Treasury bill yield for the last calendar week ending on or before June 26 preceding July 1 of each year, plus 3.25%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 12%. Prior to July 1, 2001, PLUS Loans in this category had interest rates which were based on the 52-week Treasury bill auctioned at the final auction held prior to the preceding June 1, plus 3.25%. The annual (July 1) variable interest rate adjustment was applicable prior to July 1, 2001, as was the maximum interest rate of 12%. PLUS Loans originally made at a fixed interest rate, which have been refinanced for purposes of securing a variable interest rate, are subject to the variable interest rate calculation described in this paragraph.

Beginning July 1, 2001, for PLUS Loans first disbursed on or after October 1, 1992, but before July 1, 1994, the applicable interest rate is variable and is based on the weekly average one-year constant maturity Treasury yield for the last calendar week ending on or before June 26 preceding July 1 of each year, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 10%. Prior to July 1, 2001, PLUS Loans in this category had interest rates which were based on the 52-week Treasury bill auctioned at the final auction held prior to the preceding June 1, plus 3.1%. The annual (July 1) variable interest rate adjustment was applicable prior to July 1, 2001, as was the maximum interest rate of 10%.

Beginning July 1, 2001, for PLUS Loans first disbursed on or after July 1, 1994, but before July 1, 1998, the applicable interest rate is variable and is based on the weekly average one-year constant maturity Treasury yield for the last calendar week ending on or before June 26 preceding July 1 of each year, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 9%. Prior to July 1, 2001, PLUS Loans in this category had interest rates which were based on the 52-week Treasury bill auctioned at the final auction held prior to the preceding June 1, plus 3.1%. The annual (July 1) variable interest rate adjustment was applicable prior to July 1, 2001, as was the maximum interest rate of 9%.

For PLUS Loans first disbursed on or after July 1, 1998, but before July 1, 2006, the applicable interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned at the final auction before the preceding June 1 of each year, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 9%.

For PLUS Loans first disbursed on or after July 1, 2006, the applicable interest rate is fixed at 8.5%.

SLS Loans

General. SLS Loans were limited to graduate or professional students, independent undergraduate students, and dependent undergraduate students, if the students' parents were unable to obtain a PLUS Loan. Except for dependent undergraduate students, eligibility for SLS Loans was determined without regard to need. SLS Loans were similar to Stafford Loans with respect to the involvement of guarantee agencies and the Secretary of Education in providing federal insurance and reinsurance on the loans. However, SLS Loans differed significantly, particularly from Subsidized Stafford Loans, because federal interest subsidy payments were not available under the SLS Loan Program and special allowance payments were more restricted. The SLS Loan Program was discontinued on July 1, 1994.

Interest rates for SLS Loans. The applicable interest rates on SLS Loans made before October 1, 1992, and on SLS Loans originally made at a fixed interest rate, which have been refinanced for purposes of securing a variable interest rate, are identical to the applicable interest rates described for PLUS Loans made before October 1, 1992.

For SLS Loans first disbursed on or after October 1, 1992, but before July 1, 1994, the applicable interest rate is as follows:

- Beginning July 1, 2001, the applicable interest rate is variable and is based on the weekly average one-year constant maturity Treasury yield for the last calendar week ending on or before June 26 preceding July 1 of each year, plus 3.1%. The variable interest rate is adjusted annually on July 1. The maximum interest rate is 11%. Prior to July 1, 2001, SLS Loans in this category had interest rates which were based on the 52-week Treasury bill auctioned at the final auction held prior to the preceding June 1, plus 3.1%. The annual (July 1) variable interest rate adjustment was applicable prior to July 1, 2001, as was the maximum interest rate of 11%.

Consolidation Loans

General. The Higher Education Act authorizes a program under which certain borrowers may consolidate their various federally insured education loans into a single loan insured and reinsured on a basis similar to Stafford Loans. Consolidation Loans may be obtained in an amount sufficient to pay outstanding principal, unpaid interest, late charges, and collection costs on federally insured or reinsured student loans incurred under the Federal Family Education Loan and Direct Loan Programs, including PLUS Loans made to the consolidating borrower, as well as loans made under the Perkins Loan (formally National Direct Student Loan Program)–, FISL, Nursing Student Loan (NSL), Health Education Assistance Loan (HEAL), and Health Professions Student Loan (HPSL) Programs. To be eligible for a FFELP Consolidation Loan, a borrower must:

- have outstanding indebtedness on student loans made under the Federal Family Education Loan Program and/or certain other federal student loan programs; and
- be in repayment status or in a grace period on loans that are to be consolidated.

Borrowers who are in default on loans that are to be consolidated must first make satisfactory arrangements to repay the loans to the respective holder(s) or must agree to repay the consolidating lender under an income-sensitive repayment arrangement in order to include the defaulted loans in the Consolidation Loan. For applications received on or after January 1, 1993, borrowers may add additional loans to a Consolidation Loan during the 180-day period following the origination of the Consolidation Loan.

A married couple who agreed to be jointly liable on a Consolidation Loan for which the application was received on or after January 1, 1993, but before July 1, 2006, is treated as an individual for purposes of obtaining a Consolidation Loan.

Interest rates for Consolidation Loans. For Consolidation Loans disbursed before July 1, 1994, the applicable interest rate is fixed at the greater of:

- 9%, or
- The weighted average of the interest rates on the loans being consolidated, rounded to the nearest whole percent.

For Consolidation Loans disbursed on or after July 1, 1994, based on applications received by the lender before November 13, 1997, the applicable interest rate is fixed and is based on the weighted average of the interest rates on the loans being consolidated, rounded up to the nearest whole percent.

For Consolidation Loans on which the application is received by the lender between November 13, 1997, and September 30, 1998, inclusive, the applicable interest rate is variable according to the following:

- For the portion of the Consolidation Loan which is comprised of FFELP, Direct, FISL, Perkins, HPSL, or NSL loans, the variable interest rate is based on the bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before the preceding June 1, plus 3.1%. The variable interest rate for this portion of the Consolidation Loan is adjusted annually on July 1. The maximum interest rate for this portion of the Consolidation Loan is

8.25%.

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- For the portion of the Consolidation Loan which is attributable to HEAL Loans (if applicable), the variable interest rate is based on the average of the bond equivalent rates of the 91-day Treasury bills auctioned for the quarter ending June 30, plus 3.0%. The variable interest rate for this portion of the Consolidation Loan is adjusted annually on July 1. There is no maximum interest rate for the portion of a Consolidation Loan that is represented by HEAL Loans.

For Consolidation Loans on which the application is received by the lender on or after October 1, 1998, the applicable interest rate is determined according to the following:

- For the portion of the Consolidation Loan which is comprised of FFELP, Direct, FISL, Perkins, HPSL, or NSL loans, the applicable interest rate is fixed and is based on the weighted average of the interest rates on the non-HEAL loans being consolidated, rounded up to the nearest one-eighth of one percent. The maximum interest rate for this portion of the Consolidation Loan is 8.25%.

- For the portion of the Consolidation Loan which is attributable to HEAL Loans (if applicable), the applicable interest rate is variable and is based on the average of the bond equivalent rates of the 91-day Treasury bills auctioned for the quarter ending June 30, plus 3.0%. The variable interest rate for this portion of the Consolidation Loan is adjusted annually on July 1. There is no maximum interest rate for the portion of the Consolidation Loan that is represented by HEAL Loans.

For a discussion of required payments that reduce the return on Consolidation Loans, see "Fees – Rebate fee on Consolidation Loans" in this Appendix.

Interest rate during active duty

The Higher Education Opportunity Act of 2008 revised the Servicemembers Civil Relief Act to include FFEL Program loans. Interest charges on FFEL Program loans are capped at 6% during a period of time on or after August 14, 2008, in which a borrower has served or is serving on active duty in the Armed Forces, National Oceanic and Atmospheric Administration, Public Health Services, or National Guard. The interest charge cap includes the interest rate in addition to any fees, service charges, and other charges related to the loan. The cap is applicable to loans made prior to the date the borrower was called to active duty.

Maximum loan amounts

Each type of loan is subject to certain limits on the maximum principal amount, with respect to a given academic year and in the aggregate. Consolidation Loans are currently limited only by the amount of eligible loans to be consolidated. PLUS Loans are limited to the difference between the cost of attendance and the other aid available to the student. Stafford Loans, subsidized and unsubsidized, are subject to both annual and aggregate limits according to the provisions of the Higher Education Act.

Loan limits for Subsidized Stafford and Unsubsidized Stafford Loans. Dependent and independent undergraduate students are subject to the same annual loan limits on Subsidized Stafford Loans; independent students are allowed greater annual loan limits on Unsubsidized Stafford Loans. A student who has not successfully completed the first year of a program of undergraduate education may borrow up to $3,500 in Subsidized Stafford Loans in an academic year. A student who has successfully completed the first year, but who has not successfully completed the second year, may borrow up to $4,500 in Subsidized Stafford Loans per academic year. An undergraduate student who has successfully completed the first and second years, but who has not successfully completed the remainder of a program of undergraduate education, may borrow up to $5,500 in Subsidized Stafford Loans per academic year.

Dependent students may borrow an additional $2,000 in Unsubsidized Stafford Loans for each year of undergraduate study. Independent students may borrow an additional $6,000 of Unsubsidized Stafford Loans for each of the first two years and an additional $7,000 for the third, fourth, and fifth year of undergraduate study. For students enrolled in programs of less than an academic year in length, the limits are generally reduced in proportion to the amount by which the programs are less than one year in length. A graduate or professional student may borrow up to $20,500 in an academic year where no more than $8,500 is representative of Subsidized Stafford Loan amounts.

The maximum aggregate amount of Subsidized Stafford and Unsubsidized Stafford Loans, including that portion of a Consolidation Loan used to repay such loans, which a dependent undergraduate student may have outstanding is $31,000 (of which only $23,000 may be Subsidized Stafford Loans). An independent undergraduate student may have an aggregate maximum of $57,500 (of which only $23,000 may be Subsidized Stafford Loans). The maximum aggregate amount of Subsidized Stafford and Unsubsidized Stafford Loans, including the portion of a Consolidation Loan used to repay such loans, for a graduate or professional student, including loans for undergraduate education, is $138,000, of which only $65,000 may be Subsidized Stafford Loans. In some instances, schools may certify loan amounts in excess of the limits, such as for certain health profession students.

Loan limits for PLUS Loans. For PLUS Loans made on or after July 1, 1993, the annual amounts of PLUS Loans are limited only by the student's unmet need. There is no aggregate limit for PLUS Loans.

Disbursement requirements

The Higher Education Act requires that Stafford Loans and PLUS Loans be disbursed by eligible lenders in at least two separate installments. The proceeds of a loan made to any first-year undergraduate student borrowing for the first time under the program must be delivered to the student no earlier than 30 days after the enrollment period begins, with a few exceptions.

Effective February 8, 2006, the date of enactment of the Higher Education Reconciliation Act of 2005, schools with a cohort default rate of less than 10% for the three most recent fiscal years for which data is available (with the exception of foreign schools, beginning July 1, 2006) are permitted to request disbursement in single installments and are excused from the 30-day delayed delivery requirement applicable to first-time, first-year borrowers. As a result of the Higher Education Opportunity Act of 2008, these same privileges will be available effective October 1, 2011, for schools with a cohort default rate of less than 15% for the three most recent fiscal years for which data is available.

Repayment

Repayment periods. Loans made under the Federal Family Education Loan Program, other than Consolidation Loans and loans being repaid under an income-based or extended repayment schedule, must provide for repayment of principal in periodic installments over a period of not less than five nor more than ten years. A borrower may request, with concurrence of the lender, to repay the loan in less than five years with the right to subsequently extend the minimum repayment period to five years. Since the 1998 Amendments, lenders have been required to offer extended repayment schedules to new borrowers who accumulate outstanding Federal Family Education Loan Program Loans of more than $30,000, in which case the repayment period may extend up to 25 years, subject to certain minimum repayment amounts. Consolidation Loans must be repaid within maximum repayment periods which vary depending upon the principal amount of the borrower's outstanding student loans, but may not exceed 30 years. For Consolidation Loans for which the application was received prior to January 1, 1993, the repayment period cannot exceed 25 years. Periods of authorized deferment and forbearance are excluded from the maximum repayment period. In addition, if the repayment schedule on a loan with a variable interest rate does not provide for adjustments to the amount of the monthly installment payment, the maximum repayment period may be extended for up to three years.

Repayment of principal on a Stafford Loan does not begin until a student drops below at least a half-time course of study. For Stafford Loans for which the applicable rate of interest is fixed at 7%, the repayment period begins between nine and twelve months after the borrower ceases to pursue at least a half-time course of study, as indicated in the promissory note. For other Stafford Loans, the repayment period begins six months after the borrower ceases to pursue at least a half-time course of study. These periods during which payments of principal are not due are the "grace periods."

In the case of SLS, PLUS, and Consolidation Loans, the repayment period begins on the date of final disbursement of the loan, except that the borrower of a SLS Loan who also has a Stafford Loan may postpone repayment of the SLS Loan to coincide with the commencement of repayment of the Stafford Loan.

During periods in which repayment of principal is required, unless the borrower is repaying under an income-based repayment schedule, payments of principal and interest must in general be made at a rate of at least $600 per year, except that a borrower and lender may agree to a lesser rate at any time before or during the repayment period. However, at a minimum, the payments must satisfy the interest that accrues during the year. Borrowers may make accelerated payments at any time without penalty.

Income-sensitive repayment schedule. Since 1993, lenders have been required to offer income-sensitive repayment schedules, in addition to standard and graduated repayment schedules, for Stafford, SLS, and Consolidation Loans. Beginning in 2000, lenders have been required to offer income-sensitive repayment schedules to PLUS borrowers as well. Use of income-sensitive repayment schedules may extend the maximum repayment period for up to five years if the payment amount established from the borrower's income will not repay the loan within the maximum applicable repayment period.

Income-based repayment schedule. Effective July 1, 2009, a borrower in the Federal Family Education Loan Program or Federal Direct Loan Program, other than a PLUS Loan made to a parent borrower or any Consolidation Loan that repaid one or more parent PLUS loans, may qualify for an income-based repayment schedule regardless of the disbursement dates of the loans if he or she has a partial financial hardship. A borrower has a financial hardship if the annual loan payment amount based on a 10-year repayment schedule exceeds 15% of the borrower's adjusted gross income, minus 150% of the poverty line for the borrower's actual family size. Interest will be paid by the Secretary of Education for subsidized loans for the first three years for any borrower whose scheduled monthly payment is not sufficient to cover the accrued interest. Interest will capitalize at the end of the partial financial hardship period, or when the borrower begins making payments under a standard repayment schedule. The Secretary of Education will cancel any outstanding balance after 25 years if a borrower who has made payments under this schedule meets certain criteria.

Deferment periods. No principal payments need be made during certain periods of deferment prescribed by the Higher Education Act. For a borrower who first obtained a Stafford or SLS loan which was disbursed before July 1, 1993, deferments are available:

- during a period not exceeding three years while the borrower is a member of the Armed Forces, an officer in the Commissioned Corps of the Public Health Service or, with respect to a borrower who first obtained a student loan disbursed on or after July 1, 1987, or a student loan for a period of enrollment beginning on or after July 1, 1987, an active duty member of the National Oceanic and Atmospheric Administration Corps;
- during a period not exceeding three years while the borrower is a volunteer under the Peace Corps Act;
- during a period not exceeding three years while the borrower is a full-time paid volunteer under the Domestic Volunteer Act of 1973;

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- during a period not exceeding three years while the borrower is a full-time volunteer in service which the Secretary of Education has determined is comparable to service in the Peace Corp or under the Domestic Volunteer Act of 1970 with an organization which is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code;

- during a period not exceeding two years while the borrower is serving an internship necessary to receive professional recognition required to begin professional practice or service, or a qualified internship or residency program;

- during a period not exceeding three years while the borrower is temporarily totally disabled, as established by sworn affidavit of a qualified physician, or while the borrower is unable to secure employment because of caring for a dependent who is so disabled;

- during a period not exceeding two years while the borrower is seeking and unable to find full-time employment;

- during any period that the borrower is pursuing a full-time course of study at an eligible institution (or, with respect to a borrower who first obtained a student loan disbursed on or after July 1, 1987, or a student loan for a period of enrollment beginning on or after July 1, 1987, is pursuing at least a half-time course of study);

- during any period that the borrower is pursuing a course of study in a graduate fellowship program;

- during any period the borrower is receiving rehabilitation training services for qualified individuals, as defined by the Secretary of Education;

- during a period not exceeding six months while the borrower is on parental leave; and

- only with respect to a borrower who first obtained a student loan disbursed on or after July 1, 1987, or a student loan for a period of enrollment beginning on or after July 1, 1987, during a period not exceeding three years while the borrower is a full-time teacher in a public or nonprofit private elementary or secondary school in a “teacher shortage area” (as prescribed by the Secretary of Education), and during a period not exceeding one year for mothers, with preschool age children, who are entering or re-entering the work force and who are paid at a rate of no more than $1 per hour more than the federal minimum wage.

For a borrower who first obtains a loan on or after July 1, 1993, deferments are available:

- during any period that the borrower is pursuing at least a half-time course of study at an eligible institution;

- during any period that the borrower is pursuing a course of study in a graduate fellowship program;

- during any period the borrower is receiving rehabilitation training services for qualified individuals, as defined by the Secretary of Education;

- during a period not exceeding three years while the borrower is seeking and unable to find full-time employment; and

- during a period not exceeding three years for any reason which has caused or will cause the borrower economic hardship. Economic hardship includes working full time and earning an amount that does not exceed the greater of the federal minimum wage or 150% of the poverty line applicable to a borrower’s family size and state of residence. Additional categories of economic hardship are based on the receipt of payments from a state or federal public assistance program, service in the Peace Corps, or until July 1, 2009, the relationship between a borrower’s educational debt burden and his or her income.

A borrower serving on active duty during a war or other military operation or national emergency, or performing qualifying National Guard duty during a war or other military operation or national emergency may obtain a military deferment. Eligible borrowers may receive the deferment for all outstanding Title IV loans in repayment effective October 1, 2007, for all periods of active duty service that include that date or begin on or after that date. The deferment period includes the borrower's service period and 180 days following the demobilization date.

A borrower serving on or after October 1, 2007, may receive up to 13 months of active duty student deferment after the completion of military service if he or she meets the following conditions:

- is a National Guard member, Armed Forces reserves member, or retired member of the Armed Forces;

- is called or ordered to active duty; and

- is enrolled at the time of, or was enrolled within six months prior to, the activation in a program at an eligible institution.

The active duty student deferment ends the earlier of when the borrower returns to an enrolled status, or at the end of 13 months.

PLUS Loans first disbursed on or after July 1, 2008, are eligible for the following deferment options:

- A parent PLUS borrower, upon request, may defer the repayment of the loan during any period during which the student for whom the loan was borrowed is enrolled at least half time. Also upon request, the borrower can defer the loan for the six-month period immediately following the date on which the student for whom the loan was borrowed ceases to be enrolled at least half time, or if the parent borrower is also a student, the date after he or she ceases to be enrolled at least half time.

- A graduate or professional student PLUS borrower may defer the loan for the six-month period immediately following the date on which he or she ceases to be enrolled at least half time. This option does not require a request and may be granted each time the borrower ceases to be enrolled at least half time.

Prior to the 1992 Amendments, only certain of the deferments described above were available to PLUS and Consolidation Loan borrowers. Prior to the 1986 Amendments, PLUS Loan borrowers were not entitled to certain deferments.

Forbearance periods. The Higher Education Act also provides for periods of forbearance during which the lender, in case of a borrower's temporary financial hardship, may postpone any payments. A borrower is entitled to forbearance for a period not exceeding three years while the borrower's debt burden under Title IV of the Higher Education Act (which includes the Federal Family Education Loan Program) equals or exceeds 20% of the borrower's gross income. A borrower is also entitled to forbearance while he or she is serving in a qualifying internship or residency program, a "national service position" under the National and Community Service Trust Act of 1993, a qualifying position for loan forgiveness under the Teacher Loan Forgiveness Program, or a position that qualifies him or her for loan repayment under the Student Loan Repayment Program administered by the Department of Defense. In addition, mandatory administrative forbearances are provided in exceptional circumstances such as a local or national emergency, a military mobilization, or when the geographical area in which the borrower or endorser resides has been designated a disaster area by the President of the United States or Mexico, the Prime Minister of Canada, or by the governor of a state.

Interest payments during grace, deferment, and forbearance periods. The Secretary of Education makes interest payments on behalf of the borrower for certain eligible loans while the borrower is in school and during grace and deferment periods. Interest that accrues during forbearance periods and, if the loan is not eligible for interest subsidy payments, during in-school, grace, and deferment periods, may be paid monthly or quarterly by the borrower. Any unpaid accrued interest may be capitalized by the lender.

Fees

Guarantee fee and Federal default fee. For loans for which the date of guarantee of principal is on or after July 1, 2006, a guarantee agency is required to collect and deposit into the Federal Student Loan Reserve Fund a Federal default fee in an amount equal to 1% of the principal amount of the loan. The fee is to be collected either by deduction from the proceeds of the loan or by payment from other non-Federal sources. Federal default fees may not be charged to borrowers of Consolidation Loans.

Origination fee. Beginning with loans first disbursed on or after July 1, 2006, the maximum origination fee which may be charged to a Stafford Loan borrower decreases according to the following schedule:

- 1.5% with respect to loans for which the first disbursement is made on or after July 1, 2007, and before July 1, 2008;

- 1.0% with respect to loans for which the first disbursement is made on or after July 1, 2008, and before July 1, 2009;

- 0.5% with respect to loans for which the first disbursement is made on or after July 1, 2009, and before July 1, 2010; and

- 0.0% with respect to loans for which the first disbursement is made on or after July 1, 2010.

A lender may charge a lesser origination fee to Stafford Loan borrowers as long as the lender does so consistently with respect to all borrowers who reside in or attend school in a particular state. Regardless of whether the lender passes all or a portion of the origination fee on to the borrower, the lender must pay the origination fee owed on each loan it makes to the Secretary of Education.

An eligible lender is required to charge the borrower of a PLUS Loan an origination fee equal to 3% of the principal amount of the loan. This fee must be deducted proportionately from each disbursement of the PLUS Loan and must be remitted to the Secretary of Education.

Lender fee. The lender of any loan made under the Federal Family Education Loan Program is required to pay a fee to the Secretary of Education. For loans made on or after October 1, 2007, the fee is equal to 1.0% of the principal amount of such loan. This fee cannot be charged to the borrower.

Rebate fee on Consolidation Loans. The holder of any Consolidation Loan made on or after October 1, 1993, is required to pay to the Secretary of Education a monthly rebate fee. For loans made on or after October 1, 1993, from applications received prior to October 1, 1998, and after January 31, 1999, the fee is equal to 0.0875% (1.05% per annum) of the principal and accrued interest on the Consolidation Loan. For loans made from applications received during the period beginning on or after October 1, 1998, through January 31, 1999, the fee is 0.0517% (0.62% per annum).

Interest subsidy payments

Interest subsidy payments are interest payments paid on the outstanding principal balance of an eligible loan before the time that the loan enters repayment and during deferment periods. The Secretary of Education and the guarantee agencies enter into interest subsidy agreements whereby the Secretary of Education agrees to pay interest subsidy payments on a quarterly basis to the holders of eligible guaranteed loans for the benefit of students meeting certain requirements, subject to the holders' compliance with all requirements of the Higher Education Act. Subsidized Stafford Loans are eligible for interest payments. Consolidation Loans for which the application was received on or after January 1, 1993, are eligible for interest subsidy payments. Consolidation Loans made from applications received on or after August 10, 1993, are eligible for interest subsidy payments only if all underlying loans consolidated are Subsidized Stafford Loans. Consolidation Loans for which the application is received by an eligible lender on or after November 13, 1997, are eligible for interest subsidy payments on that portion of the Consolidation Loan that repays subsidized Federal Family Education Loan Program Loans or similar subsidized loans made under the Direct Loan Program. The portion of the Consolidation Loan that repays HEAL Loans is not eligible for interest subsidy, regardless of the date the Consolidation Loan was made.

Special allowance payments

The Higher Education Act provides for special allowance payments (SAP) to be made by the Secretary of Education to eligible lenders. The rates for special allowance payments are based on formulas that differ according to the type of loan, the date the loan was originally made or insured, and the type of funds used to finance the loan (taxable or tax-exempt).

The effective formulas for special allowance payment rates for Subsidized Stafford and Unsubsidized Stafford Loans are summarized in the following chart. The T-Bill Rate mentioned in the chart refers to the average of the bond equivalent yield of the 91-day Treasury bills auctioned during the preceding quarter.

Date of Loans	Annualized SAP Rate
On or after October 1, 1981	T-Bill Rate less Applicable Interest Rate + 3.5%
On or after November 16, 1986	T-Bill Rate less Applicable Interest Rate + 3.25%
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after July 1, 1995	T-Bill Rate less Applicable Interest Rate + 3.1%(1)

On or after July 1, 1998	T-Bill Rate less Applicable Interest Rate + 2.8%(2)
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.34%(3)
On or after October 1, 2007 and held by a Department of Education certified not-for-profit holder or Eligible Lender Trustee holding on behalf of a Department of Education certified not-for-profit entity	3 Month Commercial Paper Rate less Applicable Interest Rate + 1.94%(4)
All other loans on or after October 1, 2007	3 Month Commercial Paper Rate less Applicable Interest Rate + 1.79%(5)

(1) Substitute 2.5% in this formula while such loans are in-school, grace, or deferment status
(2) Substitute 2.2% in this formula while such loans are in-school, grace, or deferment status.
(3) Substitute 1.74% in this formula while such loans are in-school, grace, or deferment status.
(4) Substitute 1.34% in this formula while such loans are in-school, grace, or deferment status.
(5) Substitute 1.19% in this formula while such loans are in-school, grace, or deferment status.

PLUS, SLS, and Consolidation Loans. The formula for special allowance payments on PLUS, SLS, and Consolidation Loans are as follows:

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.64%
PLUS loans on or after October 1, 2007 and held by a Department of Education certified not-for-profit holder or Eligible Lender Trustee holding on behalf of a Department of Education certified not-for-profit entity	3 Month Commercial Paper Rate less Applicable Interest Rate + 1.94%
All other PLUS loans on or after October 1, 2007	3 Month Commercial Paper Rate less Applicable Interest Rate + 1.79%
Consolidation loans on or after October 1, 2007 and held by a Department of Education certified not-for-profit holder or Eligible Lender Trustee holding on behalf of a Department of Education certified not-for-profit entity	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.24%
All other Consolidation loans on or after October 1, 2007	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.09%

For PLUS and SLS Loans made prior to July 1, 1994, and PLUS loans made on or after July 1, 1998, which bear interest at rates adjusted annually, special allowance payments are made only in quarters during which the interest rate ceiling on such loans operates to reduce the rate that would otherwise apply based upon the applicable formula. See "Interest Rates for PLUS Loans" and "Interest Rates for SLS Loans." Special allowance payments are available on variable rate PLUS Loans and SLS Loans made on or after July 1, 1987, and before July 1, 1994, and on any PLUS Loans made on or after July 1, 1998, and before January 1, 2000, only if the variable rate, which is reset annually, based on the weekly average one-year constant maturity Treasury yield for loans made before July 1, 1998, and based on the 91-day or 52-week Treasury bill, as applicable for loans made on or after July 1, 1998, exceeds the applicable maximum borrower rate. The maximum borrower rate is between 9% and 12% per annum. The portion, if any, of a Consolidation Loan that repaid a HEAL Loan is ineligible for special allowance payments.

Recapture of excess interest. The Higher Education Reconciliation Act of 2005 provides that, with respect to a loan for which the first disbursement of principal is made on or after April 1, 2006, if the applicable interest rate for any three-month period exceeds the special allowance support level applicable to the loan for that period, an adjustment must be made by calculating the excess interest and crediting such amounts to the Secretary of Education not less often than annually. The amount of any adjustment of interest for any quarter will be equal to:

- the applicable interest rate minus the special allowance support level for the loan, multiplied by
- the average daily principal balance of the loan during the quarter, divided by
- four.

Special allowance payments for loans financed by tax-exempt bonds. The effective formulas for special allowance payment rates for Stafford Loans and Unsubsidized Stafford Loans differ depending on whether loans to borrowers were acquired or originated with the proceeds of tax-exempt obligations. The formula for special allowance payments for loans financed with the proceeds of tax-exempt obligations originally issued prior to October 1, 1993 is:

$$\frac{\text{T-Bill Rate less Applicable Interest Rate} + 3.5\%}{2}$$

provided that the special allowance applicable to the loans may not be less than 9.5% less the Applicable Interest Rate. Special rules apply with respect to special allowance payments made on loans

- originated or acquired with funds obtained from the refunding of tax-exempt obligations issued prior to October 1, 1993, or
- originated or acquired with funds obtained from collections on other loans made or purchased with funds obtained from tax-exempt obligations initially issued prior to October 1, 1993.

Amounts derived from recoveries of principal on loans eligible to receive a minimum 9.5% special allowance payment may only be used to originate or acquire additional loans by a unit of a state or local government, or non-profit entity not owned or controlled by or under common ownership of a for-profit entity and held directly or through any subsidiary, affiliate or trustee, which entity has a total unpaid balance of principal equal to or less than $100,000,000 on loans for which special allowances were paid in the most recent quarterly payment prior to September 30, 2005. Such entities may originate or acquire additional loans with amounts derived from recoveries of principal until December 31, 2010. Loans acquired with the proceeds of tax-exempt obligations originally issued after October 1, 1993, receive special allowance payments made on other loans. Beginning October 1, 2006, in order to receive 9.5% special allowance payments, a lender must undergo an audit arranged by the Secretary of Education attesting to proper billing for 9.5% payments on only eligible "first generation" and "second generation" loans. First generation loans include those loans acquired using funds directly from the issuance of the tax-exempt obligation. Second-generation loans include only those loans acquired using funds obtained directly from first-generation loans. Furthermore, the lender must certify compliance of its 9.5% billing on such loans with each request for payment.

Adjustments to special allowance payments. Special allowance payments and interest subsidy payments are reduced by the amount which the lender is authorized or required to charge as an origination fee. In addition, the amount of the lender origination fee is collected by offset to special allowance payments and interest subsidy payments. The Higher Education Act provides that if special allowance payments or interest subsidy payments have not been made within 30 days after the Secretary of Education receives an accurate, timely, and complete request, the special allowance payable to the lender must be increased by an amount equal to the daily interest accruing on the special allowance and interest subsidy payments due the lender.