

**NELNET INC.**

**May 11, 2010  
10:00 a.m. CT**

Operator: Good day everyone and welcome to the Nelnet First Quarter 2010 Conference Call. Today's call is being recorded and broadcast live over the internet.

At this time, Phil Morgan, Nelnet's Director of Investor Relations will begin with opening remarks. Please go ahead, sir.

Phil Morgan: Thank you. Good morning and welcome to Nelnet's 2010 First Quarter Earnings Conference Call. On today's call, we have Jeff Noordhoek, President, and Terry Heimes, Chief Financial Officer.

Please note that during the conference call, we may discuss predictions and expectations and may make other forward-looking statements. Actual results may differ from those discussed here based on a variety of factors. These factors are discussed in the Company's Form 10-K and other filings with the SEC.

The Company does not intend to update any forward-looking statements made during the call. During the course of the call, we will refer to our non-GAAP financial measure which the Company defines as base net income. A description of base net income and a reconciliation of GAAP net income to base net income are included in our first quarter 2010 supplemental earnings disclosure which is posted on our investor relations Web site at [nelnetinvestors.com](http://nelnetinvestors.com).

After Terry and Jeff had concluded their formal remarks, we'll open up the call for questions.

Thank you. I will now turn the call over to Jeff.

Jeff Noordhoek: Thanks, Phil, and good morning everyone. We are pleased to have put together another quarter with strong operating results. Importantly, we are

optimistic about the future and the opportunities we have to deliver value to our customers.

We continue to focus on growing and diversifying our fee-for-service businesses, including the primary product lines of enrollment services, payment processing and loan servicing.

The highlights of the quarter include:

- base net income of \$1.14 per share
- an increase in revenue from all our fee-generating businesses including \$6.3 million or 14 percent from our payment processing and enrollment services businesses
- strong cashflow from our operations and portfolio, and finally
- current annualized period return on equity of 28 percent increasing our equity to \$839 million.

In addition to the strong operating results for the first quarter, we believe we are in a good position to capitalize on changes in the student loan market.

Although our current portfolio is amortizing, we have and will continue to look for opportunities to add loans to our portfolio. Since April 1, we have purchased \$2 billion of FFELP loans at attractive prices that would become immediately accretive to earnings. We remain very encouraged with our servicing partnership with the Department of Education. To remind you, we began servicing loans under the contract last September. At December 31, we were servicing 450,000 new borrowers on our system and over 1 million borrowers at the end of the quarter.

To put this in perspective, we were servicing 2.3 million borrowers under our existing FFELP servicing business at March 31.

The Department of Education is rapidly becoming a major new servicing customer for the Company right in the core of what we've been doing for over 30 years. Our systems have the capacity for growth, we have the infrastructure to support the growth, we have capital to drive the growth and our deep commitment to customer service will sustain the growth.

Even though new FFELP loan originations will cease on July 1, 2010 as mandated under the healthcare legislation, our long term fundamental business strategy of diversification in the fee-generating businesses is serving us very well. The bottom line is we are quickly moving from a finance company with a companion processing business to a processing company with a legacy finance business.

In summary, we have growing stable well-established fee-for-service businesses with recurring revenue. We are generating significant cashflow from operations and our student loan portfolio. We are confident we are well positioned for growth in a very dynamic education services market.

Now, I'll turn the call over to Terry to discuss our financial results in more detail.

Terry?

Terry Heimes: Thanks, Jeff.

We are very optimistic for the future. Our base net income excluding carry over restructuring charges was \$1.14 per share for the current quarter. This compared to \$0.64 per share for the first quarter of 2009. GAAP net income was \$1.08 per share for the first quarter compared to \$0.51 per share for the same quarter a year ago.

We were able to repurchase an additional \$274 million in debt during the first quarter generating a gain of \$10.2 million or \$0.13 per share. Although the market is stabilizing, we will continue to look for opportunities to reduce our debt and deliver value going forward.

Excluding the gains on the sale of loans and the buyback of debt, our earnings were about double what they were a year ago and up slightly \$1.01 per share versus \$0.98 per share compared to last quarter. Our total fee-based revenues increased more than 19 percent compared to last year.

We are starting to see a significant increase in loan servicing volume from the Department of Education and we also experienced strong results in our

guaranteed servicing operations which included \$10 million of collection revenue related to rehabilitation loans.

Our payment processing and interactive marketing revenues grew 12 percent and 21 percent respectively. We are well positioned for continued growth and additional product development in all of our fee-based businesses.

Our core student loan spread was 145 basis points for the current quarter compared to 144 basis points for the fourth quarter of 2009. While stable compared to the fourth quarter, we did see substantial improvement compared to this time last year when core spread was only 94 basis points. This increase was driven by the narrowing of the CP/LIBOR spread and the low interest rate environment.

Given the sustained low interest rate environment, we expect to continue to earn significant floor income. We are hedging a portion of our portfolio with fixed rate swaps and will continue to evaluate our position going forward. The continuing loan nominal rates have actually caused a slight increase in the future value of our existing portfolio.

We also expect to see opportunities to grow the portfolio through acquisitions having added \$2 billion since quarter end. We will fund most of this in the government conduit program which is available for the next four years.

And finally, as it relates to our operating expenses, operating expenses were effectively flat, up just over 1 percent for the quarter when compared to last year. We would expect the operating expenses to grow as we increase volume under the government contract and expand our fee-based revenue segments.

Sequentially, we did see an increase in personnel expenses as we consolidate our loan servicing operations in Lincoln and Denver and ramp up with the volume from the government servicing contract.

The increase in other operating expenses relate to non-cash amortization charges of intangibles and a change in estimate related to our amortization of list cost.

So as we look forward, we have significant value related to our portfolio which is not yet recognized in our financial statements. And we expect to see opportunities to acquire additional portfolios in the short term. Our strong business model focused on diversification is working and our fee-based revenues are growing.

Specifically, we will see growth in our three core business lines, servicing, payment processing and interactive marketing. And finally, our expenses and infrastructure are well positioned for growth. While we see expansion of personnel and certain other investments related to security, technology and segment specific costs, we have significant opportunities for operating leverage.

With that, I'll turn it over to the operator for questions.

Operator: Ladies and gentlemen, if you do have a question at this time, please press star then zero on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key.

Again, to ask a question, please press star then one. And our first question comes from Mike Taiano from Sandler O'Neil. Your line is open.

Mike Taiano: Hey, good morning, guys. Just had a question on the acquisition front and the 2 billion that you – I guess, acquired subsequent to the end of the quarter. Could you give us maybe some additional color on that in terms of like how many third parties were involved, the sort of relative you know returns that you were expecting on the portfolio compared to your existing portfolio and how it's going to be financed?

Terry Heimes: Sure, Mike, this is Terry.

You know, the acquisitions did include one large acquisition. There were multiple parties involved in it though, in terms of the 2 billion. They were purchased at very attractive prices. I would expect the return to be consistent with our variable student loan yield. We're going to be able to finance a substantial majority of that in the government super conduit or the straight A funding vehicle. We do have capacity in terms of our warehousing conduit

and, as you know, we've accessed the market with securitizations at least twice in the first quarter, so we've got multiple opportunities to fund it.

Operator: Thank you. Our next question comes from (Jordan Marther) from Philadelphia Financial, your line is open.

(Jordan Marther): Hey, guys, thanks for taking my call. Two questions. Can you state if you paid any premium to par on the deal?

Terry Heimes: Sure, Jordan, this is Terry. We acquired them at attractive prices. It's a very competitive industry. You know, we're not going to talk about the price.

(Jordan Marther): OK. CIT announced on their call that they are looking to sell – I think it's almost \$10 billion of their student loans. Would that be a portfolio that you'd be interested in bidding on?

Terry Heimes: You know, we expect to see opportunities to acquire portfolios from various parties. You know, where we are focused on is the combination of growing our servicing operation, our fee-based businesses and continuing to diversify our revenue streams but we will take advantage of opportunities as they're presented.

(Jordan Marther): OK. And my last question is you said you got a billion in servicing customers at the end of the quarter, is that the correct number?

Terry Heimes: Yes, as of April 30th, we've got about 1.2 million borrowers under the government servicing contract and we've got about 2.3 million other borrowers under our FFELP servicing – you know various FFELP servicing systems.

(Jordan Marther): And the 1.2 million of borrowers, what percentage would you say that is of the stuff that's become available in the past few months? In other words, there're four services that are spreading the business. Is it almost the 25-25-25-25 split or do you have any sense of what that number is?

Terry Heimes: I think we are – you know, I'm not sure we can estimate the exact actual split because initially, the borrowers that were coming on you know we kept the

borrowers that were on our system, the other servicers kept the volume that was on their system. We have gotten pick up of new borrowers on our system and would expect to do so. As we go forward, to pick up the direct lending going forward, we expect that we're very well positioned and would expect to pickup our share, given four different servicers, of the volume on a go-forward basis.

(Jordan Marther): And finally, what was the floor income number in the quarter?

Terry Heimes: About 35 million.

(Jordan Marther): Thank you.

Operator: Thank you.

And we do have a follow up question from Mike Taiano. Your line is open.

Mike Taiano: Hey, sorry guys, I must have gotten cut off there. But I guess the question I was trying to ask is effectively how much capacity do you have – you know, the additional 500 million and it looks like the rate goes up, though, if it goes above 500 million. You know what's the rationale on that and then you know just how much of the cash you know on your balance sheet do you think is – would be available to do acquisitions?

Terry Heimes: Sure, Mike. This is Terry.

The addition or the increase in the warehouse lines of the additional 500 million was really a temporary increase to allow us to get the loans on our books and then shift it into the straight A funding vehicle.

We expect to have acquisition capacity through our existing warehouse line as well as markets so we do not anticipate capacity being a restriction on it given the current market.

Mike Taiano: OK, and I would assume the servicing fee – you retained servicing and would that be similar to sort of the fee that you're getting on third party FFELP portfolios right now?

Terry Heimes: I'm not sure I follow your question.

Mike Taiano: The \$2 billion that you purchased, you will get the servicing on those loans?

Jeff Noordhoek: Sure and some of it was servicing that was already on our system. We acquired it from parties that we serviced for but we're excited about the fact that we can grow our volume as well as leverage our servicing operation.

Mike Taiano: OK, thank you.

Operator: Thank you. And our next question comes from Sameer Gokhale with Keefe, Bruyette and Woods.

Your line is open.

Sameer Gokhale: Hi. Thank you. The question I had was you know during the quarter, you recognized revenue related to those rehabilitated loans. And you know what I was curious about is just the portfolio that you purchased also – was any component of that related to rehabilitated loans so that you know, in the second quarter, you will recognize you know kind of get the benefit of large portfolios loan but then also be able to generate more of those fees related to rehabilitating the loan.

So you know, should you – is that how you are viewing that business going forward as additional maybe guarantee agencies trying to get – sell their portfolios as well? Is that the right way to think about that?

Terry Heimes: I think there's going to be an opportunity as the guarantee agencies look to increase their collection dollars, the market for loan sales at the guarantee agency for the rehabilitation loans is increasing, so we think we are going to have opportunities there because we have capacity.

We will be seeking out those opportunities as well and I think we're going to have an opportunity to see additional revenue not only from our guaranteed servicing operations, but opportunities to acquire loans.

Sameer Gokhale: OK, and then you know, I had a question about your fee-based businesses, I mean you know to the extent that your generating capital and your – you

know, your business – the new business has relatively low capital requirements, you are clearly using some of the capital to buy back debt at discounts and you're paying some – you know a dividend currently and you could raise the dividend as well.

But you know how are you thinking about capital management going forward, you know maybe increasing the dividend or are you looking specifically to expand into other fee-based businesses through additional acquisitions of any particular areas that interest you at this point?

Terry Heimes: Thanks, Sameer. And I think you hit on a lot of the – our approach to evaluating capital. You mentioned we have bought back debt. We have acquired additional loans. We are currently paying a dividend. We have opportunities to buy back stock. We have opportunities to expand our fee-based businesses through organic growth.

We have opportunities to expand the fee-based businesses through acquisition and we look at all of those opportunities consistently, you know, management is also a significant shareholders and so we will evaluate all of those various opportunities as we look to deploy capital.

Sameer Gokhale: OK, thank you.

Operator: Thank you. And our next question comes from Matt Snowling with FBR Capital Markets.

Your line is open.

Bill Jackson: It's Bill Jackson for Matt Snowling. I guess – one of the things that we think about is – you know, as the industry landscape changes, you've talked about loan purchases and some additional opportunities for guarantor servicing business, have you started to see any interest in – from legacy servicers to kind of hire you guys out to subservice legacy FFELP assets and if so, is that something that you would pursue and how do you think about that business?

Jeff Noordhoek: Hey, Bill. It's Jeff.

We're seeing lots of interesting opportunities in the market. And when something like this happens and legislation comes through and completely alters the existing landscape, we've always looked at that as an opportunity, so the short answer is we do think there will be short term in the next couple of years, an opportunity to pick up legacy servicing business and put it onto our system and it's something – back to Sameer's last question, it's a positive way of using capital to do that. We definitely see those opportunities and are pursuing those opportunities.

Bill Jackson: Thanks.

Operator: Thank you. Again, ladies and gentlemen, if you do have a question at this time, please press star then one on your touchtone telephone.

And I'm showing no further questions at this time.

Jeff Noordhoek: Well, to summarize our key points from today's call

- our strong business model focused on diversification is working and our fee-for-service revenues are growing
- we have the scalability and capacity and are quickly growing our direct loan servicing volume
- we have significant value related to our portfolio which is not yet recognized in our financial statements
- our strong liquidity position is providing opportunities for growth through portfolio acquisition and servicing rights acquisition
- we have significant cashflow from operations from our legacy portfolio.

So we want to thank you for your participation on today's call and thank you for trusting us with your investment in our company and have a great day.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude your program, you may all disconnect and everyone have a wonderful day.

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