NELNET INC
Form 10-K
February 27, 2015

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

FORM 10-K
(Mark One)

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2014
	or
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to .

COMMISSION FILE NUMBER 001-31924
NELNET, INC.
(Exact name of registrant as specified in its charter)

NEBRASKA (State or other jurisdiction of incorporation or organization)	84-0748903 (I.R.S. Employer Identification No.)
121 SOUTH 13TH STREET, SUITE 100 LINCOLN, NEBRASKA	68508
(Address of principal executive offices)	(Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
TITLE OF EACH CLASS: Class A Common Stock, Par Value $0.01 per Share
NAME OF EACH EXCHANGE ON WHICH REGISTERED: New York Stock Exchange
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act. Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]
The aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant on June 30, 2014 (the last business day of the registrant's most recently completed second fiscal quarter), based upon the closing sale price of the registrant's Class A Common Stock on that date of $41.43 per share, was $1,092,770,730. For purposes of this calculation, the registrant's directors, executive officers, and greater than 10 percent shareholders are deemed to be affiliates.
As of January 31, 2015, there were 34,663,780 and 11,486,932 shares of Class A Common Stock and Class B Common Stock, par value $0.01 per share, outstanding, respectively (excluding 11,317,364 shares of Class A Common Stock held by wholly owned subsidiaries).
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's definitive Proxy Statement to be filed for its 2015 Annual Meeting of Shareholders, scheduled to be held May 14, 2015, are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

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

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

- financing and liquidity risks, including risks of changes in the general interest rate environment and in the securitization and other financing markets for student loans, which may increase the costs or limit the availability of financings necessary to purchase, refinance, or continue to hold student loans;

- risks from changes in the educational credit and services markets resulting from changes in applicable laws, regulations, and government programs and budgets, such as the expected decline over time in FFELP loan interest income and fee-based revenues due to the discontinuation of new FFELP loan originations in 2010 and potential government initiatives or legislative proposals to consolidate existing FFELP loans to the Federal Direct Loan Program or otherwise allow FFELP loans to be refinanced with Federal Direct Loan Program loans, risks related to reduced government payments to guaranty agencies to rehabilitate defaulted FFELP loans and services in support of those activities, risks related to the Company's ability to maintain or increase volumes under the Company's loan servicing contract with the U.S. Department of Education (the "Department"), which accounted for approximately 10 percent of the Company's revenue in 2014 and for which the loan allocation metrics were modified effective September 1, 2014, and risks related to the Company's ability to comply with agreements with third-party customers for the servicing of FFELP, Federal Direct Loan Program, and private education loans;

- risks related to a breach of or failure in the Company's operational or information systems or infrastructure, or those of third-party vendors;

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

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risks and uncertainties associated with litigation matters and with maintaining compliance with the extensive regulatory requirements applicable to the Company's businesses, and uncertainties inherent in the estimates and assumptions about future events that management is required to make in the preparation of the Company's consolidated financial statements.

All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. Although the Company may from time to time voluntarily update or revise its prior forward-looking statements to reflect actual results or changes in the Company's expectations, the Company disclaims any commitment to do so except as required by securities laws.

PART I.
ITEM 1. BUSINESS

Overview

Nelnet, Inc. (the “Company”) provides educational services in loan servicing, payment processing, education planning, and asset management. These products and services help students and families plan, prepare, and pay for their education and make the administrative and financial processes more efficient for schools and financial organizations. In addition, the Company earns interest income on a portfolio of federally insured student loans. Substantially all revenue from external customers is earned, and all long-lived assets are located, in the United States.

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

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

As a result of the Reconciliation Act of 2010, the Company no longer originates new FFELP loans. However, a significant portion of the Company's income continues to be derived from its existing FFELP student loan portfolio and other FFELP service offerings. As of December 31, 2014, the Company had a $28.0 billion student loan portfolio that will amortize over the next 25 years. Interest income on the Company's existing FFELP loan portfolio, as well as fee-based revenue from FFELP guaranty and third-party servicing, will decline over time as the Company's and the Company's third-party lender clients' FFELP loan portfolios are paid down. However, the Company believes there will be opportunities to purchase additional FFELP loan portfolios from current FFELP loan holders looking to adjust their FFELP businesses, which will generate incremental earnings and cash flow.

To reduce its reliance on interest income on student loans, the Company has expanded its educational services and products. In addition, in June 2009, the Company was awarded a contract to service federally-owned student loans for the Department. As of December 31, 2014, the Company was servicing $133.6 billion of student loans for 5.9 million borrowers on behalf of the Department.

Customers

The Company serves several different groups of customers, including:

- Students and families
- Colleges and universities, specifically financial aid, business, and admissions offices
- Private, faith-based, and other K-12 schools
- Lenders and student loan servicers
- Government entities

An increase in the size of the education market generally increases the demand for the Company's products and services. As shown in the chart below, total student enrollment is projected to continue to grow for many years. An increasing number of students are pursuing a higher education, often with the help of financial aid by the federal government, for whom the Company services loans. In addition, as the education market continues to grow, often with budget and funding concerns, schools at all levels have an increasing need to become more efficient, offer consistent and quality services, and recruit and retain students.

(1) Source: Digest of Education Statistics 2013, National Center for Education Statistics, U.S. Department of Education, December 2014, NCES 2014-015

Operating Segments

The Company has three reportable operating segments with several different brands. The Company's reportable operating segments offer a broad range of services designed to simplify education planning and financing for students and families and the administrative and financial processes for schools and financial institutions. The Company's reportable operating segments include:

Student Loan and Guaranty Servicing
- Referred to as Nelnet Diversified Solutions ("NDS")
- Focuses on student loan servicing, student loan servicing-related technology solutions, and outsourcing services for lenders, guaranty agencies, and other entities
- Includes the brands Nelnet Loan Servicing, Firstmark Services, Nelnet Guarantor Solutions, 5280 Solutions, CampusGuard, Proxi, and U-Fi

Tuition Payment Processing and Campus Commerce
- Commonly known as Nelnet Business Solutions ("NBS")
- Focuses on tuition payment plans, financial needs assessment services, online payment and refund processing, and school information system software
- Includes the brands FACTS Management and RenWeb

Asset Generation and Management
- Includes the acquisition and management of the Company's student loan assets

Segment Operating Results

The Company's reportable 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 Company includes separate financial information about its reportable segments, including revenues, net income or loss, and total assets for each of the Company's reportable segments, for the last three fiscal years in note 14 of the notes to consolidated financial statements included in this report. In 2014, management determined that the Company's Enrollment Services business no longer met the quantitative thresholds for which separate information about an operating segment is required. For segment reporting purposes, business activities and operating segments that are not reportable are combined and included in "Corporate and Other Activities." Beginning in 2014, the operating results of Enrollment Services are included with Corporate and Other Activities. Prior period segment operating results were restated to conform to the current period presentation.

Student Loan and Guaranty Servicing

The primary service offerings of this operating segment include:

- Servicing federally-owned student loans for the Department
- Servicing FFELP loans
- Marketing, originating, and servicing private education loans
- Servicing and outsourcing services for FFELP guaranty agencies, including FFELP guaranty collection services
- Providing student loan servicing software and other information technology products and services
- Providing outsourced services including call center, processing, and marketing services

As of December 31, 2014, the Company serviced $161.6 billion of student loans for 7.5 million borrowers. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Student Loan and Guaranty Servicing Operating Segment - Results of Operations - Student Loan Servicing Volumes" for additional information related to the Company's servicing volume.

Servicing federally-owned student loans for the Department

The Company is one of four private sector companies (referred to as Title IV Additional Servicers, or "TIVAS") awarded a student loan servicing contract by the Department in June 2009 to provide additional servicing capacity for loans owned by the Department, with new loan volume currently being allocated among the four servicers based on certain performance metrics established by the Department. These loans include Federal Direct Loan Program loans originated directly by the Department and FFEL Program loans purchased by the Department. Under the servicing contract, the Company earns a monthly fee from the Department for each unique borrower who has loans owned by the Department and serviced by the Company. The amount paid per each unique borrower is dependent on the status of the borrower (such as in school or in repayment). The servicing contract was originally scheduled to expire in June 2014. Effective as of June 17, 2014, the Department extended the servicing contract with the Company for an additional five years through June 16, 2019.

Effective as of September 1, 2014, the Department modified the loan allocation metrics and pricing under the loan servicing contract. The modification provided that certain amounts to be paid under the servicing contract as determined by borrower status changed effective September 1, 2014. Based on the Company’s current portfolio of borrowers, the Company does not expect the initial weighted average revenue earned per unique borrower to be significantly different under the revised pricing structure than under the pre-modification pricing structure.

In addition, the modification provided that the Department will begin allocating new loan volume among the four servicers based on the following performance metrics:

- Two metrics will measure the satisfaction among separate customer groups, including borrowers (35 percent) and Federal Student Aid personnel who work with the servicers (5 percent).

- Three metrics will measure the success of keeping borrowers in an on-time repayment status and helping borrowers avoid default as reflected by the percentage of borrowers in current repayment status (30 percent), percentage of borrowers more than 90 days but less than 271 days delinquent (15 percent), and percentage of borrowers over 270 days and less than 361 days delinquent (15 percent).

The allocation of ongoing volume will be determined twice each year based on the performance of each servicer in relation to the other servicers. Quarterly results will be compiled for each servicer. The average of the September and

December quarter end results will be used to allocate volume for the period from March 1 to August 31, and the average of the March and June quarter end results will be used to allocate volume for the period from September 1 to February month end, of each year.

The Department also has contracts with 32 not-for-profit entities to service student loans that are serviced by seven prime servicers. These entities have operated under separate pricing and performance metrics, but effective as of October 1, 2014, the changes discussed above were also extended to the not-for-profit entities so that all Department servicers now operate under common pricing and performance metrics. While previously these entities have only serviced existing loans, effective January 1, 2015 they began to receive a total of 25 percent of new borrower loan volume. This will decrease new allocation volume for the Company.

Based on the pre-modification performance metrics, the Company was ranked second out of the four Department servicers for the fifth year of the servicing contract and was allocated 26 percent of new loan volume originated by the Department during the period from August 15, 2014 to February 28, 2015. As of the filing of this report, the Department has not announced the September and December 2014 quarter end performance results based on the modified metrics.

As of December 31, 2014, the Company was servicing $133.6 billion of student loans for 5.9 million borrowers under this contract.

Incremental revenue components earned by the Company from the Department (in addition to loan servicing revenues) include:

- Administration of the Total and Permanent Disability (TPD) Discharge program. The Company processes applications for the TPD Discharge program and is responsible for discharge, monitoring, and servicing of TPD loans. Individuals who are totally and permanently disabled may qualify for a discharge of their federal student loans, and the Company processes applications under the program and receives a fee from the Department on a per application basis, as well as a monthly servicing fee during the monitoring period. The Company is the exclusive provider of this service to the Department.
- Origination of consolidation loans. Beginning in 2014, the Department implemented a new process to outsource the origination of consolidation loans whereby each of the four TIVAS receives Federal Direct Loan consolidation origination volume based on borrower choice. The Department pays the Company a fee for each completed consolidation loan application it processes. The Company services the consolidation volume it originates.

The Department is the Company's largest customer, representing approximately 10 percent of the Company's revenue in 2014.

Servicing FFELP loans

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

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

The Company serviced FFELP loans on behalf of 38 third-party servicing customers as of December 31, 2014. The Company's FFELP servicing customers include national and regional banks, credit unions, and various state and non-profit secondary markets. The majority of the Company's external FFELP loan servicing activities are performed under “life of loan” contracts. Life of loan contract servicing essentially provides that as long as the loan exists, the Company shall be the sole servicer of that loan; however, the agreement may contain “deconversion” provisions where, for a fee, the lender may move the loan to another servicer.

The elimination of new FFELP loan originations in July 2010 will cause FFELP servicing revenue to decline as FFELP loan portfolios are paid down. However, the Company believes there will be opportunities to service additional FFELP loan portfolios from current FFELP participants looking to adjust their FFELP businesses.

Originating and servicing private education student loans

The Student Loan and Guaranty Servicing operating segment conducts origination and servicing activities for private education loans. Private education loans are loans to students or their families that are non-federal loans and loans not insured or guaranteed under the FFELP. These loans are used primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans, or borrowers' resources. Although similar in terms of activities and functions as FFELP loan servicing (i.e., application processing, disbursement processing, payment processing, customer service, statement distribution, and reporting), private education loan servicing activities are not required to comply with provisions of the Higher Education Act and may be more customized to individual client requirements. The Company serviced private education loans on behalf of 29 third-party servicing customers as of December 31, 2014.

Servicing and outsourcing services for FFELP guaranty agencies, including FFELP guaranty collection services

The Student Loan and Guaranty Servicing operating segment provides servicing support for guaranty agencies, which serve as intermediaries between the Department and FFELP lenders, and are responsible for paying the claims made on defaulted loans. The Department has designated approximately 30 guarantors that have been formed as either state agencies or non-profit corporations that provide FFELP guaranty services in one or more states. Approximately half of these guarantors contract externally for operational or technology services. The services provided by the Company include providing software and data center services, borrower and loan updates, default aversion services, claim processing services, and post-default collection services.

The Company's three guaranty servicing customers are Tennessee Student Assistance Corporation, College Assist, and the National Student Loan Program.

A significant portion of guaranty servicing revenue earned by the Company relates to rehabilitating defaulted FFELP loans (collection services). Recent federal budget provisions that became effective July 1, 2014 have reduced payments by the Department to guaranty agencies for assisting student loan borrowers with the rehabilitation of defaulted loans under FFELP. These provisions reduced the amount guaranty agencies retain upon successful rehabilitation from 37 percent to 16 percent of the loan balance. The Company earns revenue from rehabilitating defaulted FFELP student loans on behalf of guaranty agencies. The decrease in the retention percent earned by guaranty agencies negatively impacted the Company’s guaranty collections revenue, and also contributed to a reduction in the segment's operating margin. During the years ended December 31, 2014 and 2013, the Company recognized $41.6 million and $54.2 million, respectively, in revenue from rehabilitating defaulted FFELP loans for guaranty agencies. Of the $41.6 million of revenue recognized by the Company in 2014, $10.9 million was recognized subsequent to July 1, 2014, the effective date of the reduced payments. The Company anticipates that guaranty agencies will continue to operate with reduced levels of FFELP student loan rehabilitation activities as a result of the reduced payment framework.

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

The Student Loan and Guaranty Servicing operating segment provides student loan servicing software, which is used internally by the Company and licensed to third-party student loan holders and servicers. These software systems have been adapted so that they can be offered as hosted servicing software solutions that can be used by third-parties to service various types of student loans, including Federal Direct Loan Program and FFEL Program loans. The Company earns a monthly fee from its remote hosting customers for each unique borrower on the Company's platform, with a minimum monthly charge for most contracts. As of December 31, 2014, 1.6 million borrowers were hosted on the Company's hosted servicing software solution platforms.

In addition, this operating segment has historically provided information technology products and services, with core areas of business in educational loan software solutions, technical consulting services, enterprise content management solutions, and outsourcing and back office support services. However, the elimination of new loan originations under the FFEL Program has reduced these service offerings over the last several years.

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

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

Competition

The Company's scalable servicing platform allows it to provide compliant, efficient, and reliable service at a low cost, giving the Company a competitive advantage over others in the industry for all of this segment's services, which are discussed below.

Loan servicing

The principal competitor for existing and prospective FFELP and private education loan servicing business is Navient Corporation ("Navient"). Navient is the largest for-profit provider of servicing functions, as well as one of the largest service providers for private education loans. In contrast to its competitors, the Company has segmented its private education loan servicing on a distinct platform, created specifically to meet the needs of private education student loan borrowers, their families, the schools they attend, and the lenders who serve them. This ensures access to specialized teams with a dedicated focus on servicing these borrowers.

With the elimination of new loan originations under the FFEL Program, four servicers, including the Company, were named by the Department as servicers of federally-owned loans. The three competitors for gaining future servicing volume from the Department are Great Lakes Educational Loan Services Inc. (“Great Lakes”), FedLoan Servicing (Pennsylvania Higher Education Assistance Agency (“PHEAA”)), and Navient.

In addition, the Department has contracts with 32 not-for-profit entities to service student loans that are serviced by seven prime servicers. These entities were authorized in 2012 to begin servicing loans for existing borrower accounts. While previously these entities have only serviced existing loans, effective January 1, 2015 they began to receive a total of 25 percent of new borrower loan volume. This will decrease new allocation volume for the TIVAS, including the Company. The Company currently licenses its hosted servicing software to four prime servicers that represent 13 not-for-profit organizations. PHEAA is the only other TIVAS servicer offering a hosted Federal Direct Loan Program servicing solution to the not-for-profit servicers.

Guaranty servicing

With the elimination of new loan originations under the FFEL Program, services provided to guaranty agencies will continue for agencies' existing portfolios. The Company currently anticipates continuing to serve its existing guaranty customers as their portfolios pay down, but does not expect to increase the number of its guaranty servicing customers.

Approximately 70 percent of the Company's guaranty servicing revenue comes from a single guaranty servicing client. The current term of the contract with this client expires on October 31, 2015 and is subject to renewal. Given the significant reduction in rehabilitation collection revenue resulting from changes in federal budget provisions that became effective July 1, 2014, the terms of this contract could be modified in ways that reduce the Company's amount of guaranty servicing revenue even further or the agreement could be terminated.

Software and technology

The Company is one of the leaders in the development of servicing software for private education, Federal Direct Loan Program, and FFELP student loans. Many student loan lenders utilize the Company's software either directly or indirectly. Management believes the Company's competitors in this segment are much smaller than the Company and do not have the depth of knowledge, experience, or products offered by the Company. In addition, the Company believes the investments it has made to scale its systems and to create a secure infrastructure to support the Department's servicing volume and requirements increase its competitive advantage as a long-term partner in the loan servicing market.

Tuition Payment Processing and Campus Commerce

The Company's Tuition Payment Processing and Campus Commerce operating segment provides products and services to help students and families manage the payment of education costs at all levels (K-12 and higher education). It also provides innovative education-focused technologies, services, and support solutions to help schools with the everyday challenges of collecting and processing commerce data. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Tuition Payment Processing and Campus Commerce Operating Segment - Results of Operations" for a discussion of the seasonality of the business in this operating segment.

K-12

According to the National Center for Education Statistics, the K-12 market consists of over 17,000 private and faith-based education institutions with over 50 students enrolled in the 2011-2012 academic year, the most current data available. In the K-12 market, the Company offers tuition management services, school information systems, as well as assistance with financial needs assessment and donor management.

The Company is the market leader, having actively managed tuition payment plans in place at over 5,200 K-12 educational institutions. Tuition management services include payment plan administration, incidental billing, accounts receivable management, and record keeping. K-12 educational institutions contract with the Company to administer deferred payment plans that allow families to make monthly payments over 6 to 12 months. The Company collects a fee from either the institution or the payer as an administration fee.

The Company's financial needs assessment service, which serves over 4,200 private, faith-based schools, helps K-12 schools evaluate and determine the amount of financial aid to disburse to the families it serves. The Company's donor services allow schools to assess and deliver strategic fundraising solutions using the latest technology.

On June 3, 2014, the Company purchased 100 percent of the ownership interests of RenWeb. RenWeb currently provides school information systems to over 3,000 private and faith-based schools to help schools automate administrative processes such as admissions, scheduling, student billing, attendance, and grade book management. RenWeb's information systems software is sold as a subscription service to schools. The combination of RenWeb's school administration software and the Company's tuition management and financial needs assessment services is expected to significantly increase the value of the Company's offerings in this area, allowing the Company to deliver a comprehensive suite of solutions to schools.

Higher Education

The higher education market consists of nearly 4,700 colleges and universities. The Company offers two principal products to the higher education market: actively managed tuition payment plans, and campus commerce technologies and payment processing.

The Company has actively managed tuition payment plans in place at approximately 620 colleges and universities. Higher education institutions contract with the Company to administer payment plans that allow the student and family to make monthly payments on either a semester or annual basis. The Company collects a fee from the student or family as an administration fee.

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

QuikPAY, a campus commerce product, is sold as a subscription service to colleges and universities. QuikPAY processes payments through the appropriate channels in the banking or credit card networks to make deposits into the client's bank account. It can be further deployed to other departments around campus as requested (e.g., application fees, alumni giving, parking, events, etc.). Approximately 220 colleges and universities use the QuikPAY system.

Competition

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

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

The Company's principal competitive advantages are (i) the customer service it provides to institutions, (ii) the information management tools provided with the Company's service, and (iii) the Company's ability to interface with the institution clients and their third party service providers. The Company believes its clients select products primarily based on technological superiority and feature functionality, but price and service also impact the selection process.

Asset Generation and Management

The Asset Generation and Management operating segment includes the acquisition, management, and ownership of the Company's student loan assets, which was historically the Company's largest product and service offering. As of December 31, 2014, the Company's student loan portfolio was $28.0 billion. 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 associated costs to finance such portfolio. See Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset Generation and Management Operating Segment - Results of Operations - Student Loan Spread Analysis,” for further details related to the student loan spread. The student loan assets are held in a series of education lending subsidiaries and associated securitization trusts designed specifically for this purpose. In addition to the student loan spread earned on its portfolio, all costs and activity associated with managing the portfolio, such as servicing of the assets and debt maintenance, are included in this segment.

Student loans consist of federally insured student loans and private education loans. Federally insured student loans were originated under the FFEL Program. The Company's portfolio of federally insured student loans is subject to minimal credit risk, as these loans are guaranteed by the Department at levels ranging from 97 percent to 100 percent. Substantially all of the Company's loan portfolio (99.9 percent as of December 31, 2014) is federally insured. The Company's portfolio of private education loans is subject to credit risk similar to other consumer loan assets.

The Higher Education Act regulates every aspect of the federally insured student loan program, including certain communications with borrowers, loan originations, and default aversion. Failure to service a student loan properly could jeopardize the guarantee on federal student loans. In the case of death, disability, or bankruptcy of the borrower, the guarantee covers 100 percent of the loan's principal and accrued interest.

FFELP loans are guaranteed by state agencies or non-profit companies designated as guarantors, with the Department providing reinsurance to the guarantor. Guarantors are responsible for performing certain functions necessary to ensure the program's soundness and accountability. Generally, the guarantor is responsible for ensuring that loans are serviced in compliance with the requirements of the Higher Education Act. When a borrower defaults on a FFELP loan, the Company submits a claim to the guarantor, who provides reimbursements of principal and accrued interest, subject to the applicable risk share percentage.

Origination and Acquisition

The Reconciliation Act of 2010 eliminated originations of new FFELP loans effective July 1, 2010. However, the Company believes there will be ongoing opportunities to continue to purchase FFELP loan portfolios from current FFELP participants looking to adjust their FFELP businesses. For example, from July 1, 2010 through December 31, 2014, the Company purchased a total of $17.1 billion of FFELP student loans from various third-parties, including a total of $6.1 billion during 2014. The Company's competition for the purchase of student loan portfolios and residuals includes large banks, hedge funds, and other student loan finance companies.

Interest Rate Risk Management

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

Intellectual Property

The Company owns numerous trademarks and service marks (“Marks”) to identify its various products and services. As of December 31, 2014, the Company had 46 registered Marks. The Company actively asserts its rights to these Marks when it believes infringement may exist. The Company believes its Marks have developed and continue to develop strong brand-name recognition in the industry and the consumer marketplace. Each of the Marks has, upon registration, an indefinite duration so long as the Company continues to use the Mark on or in connection with such goods or services as the Mark identifies. In order to protect the indefinite duration, the Company makes filings to continue registration of the Marks. The Company owns one patent application that has been published, but has not yet been issued, and has also actively asserted its rights thereunder in situations where the Company believes its claims may be infringed upon. The Company owns many copyright protected works, including its various computer system codes and displays, Web sites, books and other publications, and marketing materials. The Company also has trade secret rights to many of its processes and strategies and its software product designs. The Company's software products are protected by both registered and common law copyrights, as well as strict confidentiality and ownership provisions placed in license agreements, which restrict the ability to copy, distribute, or improperly disclose the software products. The Company also has adopted internal procedures designed to protect the Company's intellectual property.

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

Employees

As of December 31, 2014, the Company had approximately 3,100 employees. None of the Company's employees are covered by collective bargaining agreements. The Company is not involved in any material disputes with any of its employees, and the Company believes that relations with its employees are good.

Available Information

Copies of the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports are available on the Company's Web site free of charge as soon as reasonably practicable after such reports are filed with or furnished to the United States Securities and Exchange Commission ("SEC"). Investors and other interested parties can access these reports and the Company's proxy statements at http://www.nelnetinvestors.com. The Company routinely posts important information for investors on its Web site.

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

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

ITEM 1A. RISK FACTORS

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

Student Loan Portfolio

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

Interest rate risk - basis and repricing risk

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

We fund the majority of our FFELP student loan assets with one-month or three-month LIBOR indexed floating rate securities. In addition, the interest rates on some of our debt are set via a “dutch auction.” Meanwhile, the interest earned on our FFELP student loan assets is indexed to one-month LIBOR and Treasury bill rates. The different interest rate characteristics of our loan assets and our liabilities funding these assets results in basis risk. We also face repricing risk due to the timing of the interest rate resets on our liabilities, which may occur as infrequently as once a quarter, in contrast to the timing of the interest rate resets on our assets, which generally occur daily. In a declining interest rate environment, this may cause our student loan spread to compress, while in a rising interest rate environment, it may cause the spread to increase.

As of December 31, 2014, we had $27.3 billion and $0.9 billion of FFELP loans indexed to the one-month LIBOR and the three-month Treasury bill rate, respectively, both of which reset daily, and $16.5 billion of debt indexed to three-month LIBOR, which resets quarterly, and $9.9 billion of debt indexed to one-month LIBOR, which resets monthly. While these indices are all short term in nature with rate movements that are highly correlated over a longer period of time, there have been points in recent history related to the U.S. and European debt crisis that have caused volatility to be high and correlation to be reduced. There can be no assurance that the indices' historically high level of correlation will not be disrupted in the future due to capital market dislocations or other factors not within our control. In such circumstances, our earnings could be adversely affected, possibly to a material extent.

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

Interest rate risk - loss of floor income

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

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

For the year ended December 31, 2014, we earned $179.9 million of fixed rate floor income, net of $24.4 million of settlements paid related to derivatives used to hedge loans earning fixed rate floor income. Absent the use of derivative instruments, a rise in interest rates will reduce the amount of floor income received and this will have an impact on earnings due to interest margin compression caused by increased financing costs, until such time as the federally insured loans earn interest at a variable rate in accordance with their SAP formulas. In higher interest rate environments, where the interest rate rises above the borrower rate and fixed rate loans effectively convert to variable rate loans, the impact of the rate fluctuations is reduced.

Interest rate risk - use of derivatives

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

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

By using derivative instruments, we are exposed to credit and market risk. We attempt to manage credit and market risks associated with interest 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 our risk committee. As of December 31, 2014, all of our derivative counterparties had investment grade credit ratings. We also have a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association, Inc. Master Agreement.

When the fair value of a derivative contract is positive (an asset on our balance sheet), this generally indicates that the counterparty owes us if the derivative was settled. If the counterparty fails to perform, credit risk with such counterparty is equal to the extent of the fair value gain in the derivative less any collateral held by us. If we were unable to collect from a counterparty, we would have a loss equal to the amount the derivative is recorded on the consolidated balance sheet. As of December 31, 2014, the fair value of our derivatives which had a positive fair value in our favor (an asset on our balance sheet) was $64.4 million. The Company held no collateral as of December 31, 2014 related to these derivatives.

When the fair value of a derivative instrument is negative (a liability on our balance sheet), we would owe the counterparty if the derivative was settled and, therefore, have no immediate credit risk. If the negative fair value of derivatives with a counterparty exceeds a specified threshold, we may have to make a collateral deposit with the counterparty. The threshold at which we may be required to post collateral is dependent upon our unsecured credit rating. The Company believes any downgrades from its current unsecured credit ratings (Standard & Poor's: BBB- (stable outlook) and Moody's: Ba1 (stable outlook)), would not result in additional collateral requirements of a material nature. In addition, no counterparty has the right to terminate its contracts in the event of downgrades from the current ratings. However, some derivative contracts have mutual optional termination provisions that can be exercised during the years 2016 through 2023. As of December 31, 2014, the fair value of derivatives with early termination provisions was a positive $34.7 million (an asset on our balance sheet).

Interest rate movements have an impact on the amount of collateral we are required to deposit with our derivative instrument counterparties. Based on the interest rate swaps outstanding as of December 31, 2014 (for both the floor income and hybrid debt hedges), if the forward interest rate curve was one basis point lower for the remaining duration of these derivatives, we would have been required to post $0.5 million in additional collateral. In addition, if the forward basis curve between 1-month and 3-month LIBOR experienced a one basis point reduction in spread for the remaining duration of our 1:3 Basis Swaps (in which we pay 1-month LIBOR and receive 3-month LIBOR), we would have been required to post $7.1 million in additional collateral.

With our current derivative portfolio, we do not currently anticipate a near term movement in interest rates having a material impact on our liquidity or capital resources, nor expect future movements in interest rates to have a material impact on our ability to meet potential collateral deposit requirements with our counterparties. Due to the existing low interest rate environment, our exposure to downward movements in interest rates on our interest rate swaps is limited. In addition, we believe the historical high correlation between 1-month and 3-month LIBOR limits our exposure to interest rate movements on the 1:3 Basis Swaps.

However, if interest rates move materially and negatively impact the fair value of our derivative portfolio or if we enter into additional derivatives in which the fair value of such derivatives become negative, we could be required to deposit a significant amount of collateral with our derivative instrument counterparties. The collateral deposits, if significant, could negatively impact our liquidity and capital resources. As of December 31, 2014, the fair value of our derivatives which had a negative fair value (a liability on our balance sheet) was $32.8 million. The Company had no collateral deposited as of December 31, 2014 related to these derivatives.

Our outstanding cross-currency interest rate swap is a derivative entered into as a result of an asset-backed security financing. This derivative was entered into at the securitization trust level with the counterparty and does not contain credit contingent features related to our or the trust's credit ratings. As such, there are no collateral requirements and the impact of changes to foreign currency rates has no impact on the amount of collateral we would be required to deposit with the counterparty on this derivative.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) represents a comprehensive overhaul of the regulatory framework for the financial services industry within the United States. The Dodd-Frank Act provides the Commodity Futures Trading Commission (the "CFTC") with substantial authority to regulate over-the-counter derivative transactions. The CFTC issued final regulations that require derivative transactions to be executed through an exchange or central clearinghouse. As such, effective June 10, 2013, all over-the-counter derivative contracts executed by us are cleared post-execution at a regulated clearinghouse. Clearing is a process by which a third-party, the clearinghouse, steps in between the original counterparties and guarantees the performance of both, by requiring that each post substantial amounts of liquid collateral on an initial and mark-to-market basis to cover the clearinghouse's potential future exposure in the event of default. The new clearing requirements did not alter or affect the terms and conditions of our derivative instruments executed prior to June 10, 2013. The new clearing requirements require us to post substantial amounts of liquid collateral when executing new derivative instruments, which could negatively impact our liquidity and capital resources and may prevent or limit us from utilizing derivative instruments to manage interest rate sensitivity and risks. However, the new clearing requirements reduce counterparty risk associated with derivatives executed by us after June 10, 2013.

Prepayment risk

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

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

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

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

Credit risk

Future losses due to defaults on loans held by us, or loans sold to unaffiliated third parties which we are obligated to repurchase in the event of certain delinquencies, present credit risk which could adversely affect our earnings.

The vast majority (99.9 percent) of our student loan portfolio is federally guaranteed. The allowance for loan losses from the federally insured loan portfolio is based on periodic evaluations of our loan portfolios, considering loans in repayment versus those in nonpaying status, delinquency status, trends in defaults in the portfolio based on Company and industry data, past experience, trends in student loan claims rejected for payment by guarantors, changes to federal student loan programs, current economic conditions, and other relevant factors. The federal government currently guarantees 97 percent of the principal and interest on federally insured student loans disbursed on and after July 1, 2006 (and 98 percent for those loans disbursed on and after October 1, 1993 and prior to July 1, 2006), which limits our loss exposure on the outstanding balance of our federally insured portfolio. Student loans disbursed prior to October 1, 1993 are fully insured for both principal and interest.

Our private education loans are unsecured, with neither a government nor a private insurance guarantee. Accordingly, we bear the full risk of loss on these loans if the borrower and co-borrower, if applicable, default. In determining the adequacy of the allowance for loan losses on the private education loans, we consider several factors, including: loans in repayment versus those in a nonpaying status, delinquency status, type of program, trends in defaults in the portfolio based on Company and industry data, past experience, current economic conditions, and other relevant factors. We place a private education loan on nonaccrual status when the collection of principal and interest is 30 days past due, and charge 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. As of December 31, 2014, our allowance for loan losses was $48.9 million. During the year ended December 31, 2014, we recognized a provision for loan losses of $9.5 million. The provision for loan losses reflects the activity for the applicable period and provides an allowance at a level that management believes is appropriate to cover probable losses inherent in the loan portfolio. However, future defaults can be higher than anticipated due to a variety of factors, such as downturns in the economy, regulatory or operational changes, and other unforeseen future trends. General economic and employment conditions, including employment rates for recent college graduates, during the recent recession led to higher rates of student loan defaults which can have an adverse effect on our earnings, particularly with respect to private education loans. Although default rates have subsequently decreased as economic conditions have improved, they remain higher than the pre-recession levels. If actual performance is significantly worse than currently estimated, it would materially affect our estimate of the allowance for loan losses and the related provision for loan losses in our statements of income.

The Company has sold various portfolios of private education loans to third-parties. Per the terms of the servicing agreements, the Company's servicing operations are obligated to repurchase loans subject to the sale agreements in the event such loans become 60 or 90 days delinquent. As of December 31, 2014, the balance of loans subject to these repurchase obligations was $155.3 million. As of December 31, 2014, we had a reserve related to this obligation of $11.8 million included in other liabilities on the consolidated balance sheet. The evaluation of the reserve related to these loans is inherently subjective, as it requires estimates that may be subject to changes. If actual performance is worse than estimated, it would negatively affect our results of operations.

Liquidity and Funding

We fund student loans in FFELP warehouse facilities. The current maturities of these facilities do not match the maturity of the related funded assets. Therefore, we will need to modify and/or find alternative funding related to the student loan collateral in these facilities prior to their expiration. If we cannot find any funding alternatives, we would lose our collateral, including the student loan assets and cash advances, related to these facilities.

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

As of December 31, 2014, we maintained three FFELP warehouse facilities as described in note 4 of the notes to consolidated financial statements included in this report. These facilities have revolving financing structures supported by 364-day liquidity provisions, which expire in 2015. In the event we are unable to renew the liquidity provisions for a facility, the facility would become a term facility at a stepped-up cost, with no additional student loans being eligible for financing, and we would be required to refinance the existing loans in the facility by its final maturity date in 2016 or 2017. The FFELP warehouse facilities also contain financial covenants relating to levels of our consolidated net worth, ratio of adjusted EBITDA to corporate debt interest, and unencumbered cash. Any noncompliance with these covenants could result in a requirement for the immediate repayment of any outstanding borrowings under the facilities. As of December 31, 2014, $1.2 billion was outstanding under the warehouse facilities and $73.4 million was advanced as equity support.

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

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

One of our warehouse facilities provides formula based advance rates based on market conditions, which requires equity support to be posted to the facility. As of December 31, 2014, $21.9 million was advanced as equity support under this facility. The other two warehouse facilities have static advance rates that require initial equity for loan funding, but do not require increased equity based on market movements. In the event that a significant change in the valuation of loans results in additional required equity funding support for the warehouse facilities greater than what we can provide, the warehouse facilities could be subject to an event of default resulting in termination of the facilities and an acceleration of the repayment provisions. If we cannot find any funding alternatives, we would lose our collateral, including the student loan assets and cash advances, related to these facilities. A default on the FFELP warehouse facilities would result in an event of default on our $350.0 million unsecured line of credit that would result in the outstanding balance on the line of credit becoming immediately due and payable.

We are committed to purchase private education loans from certain third-parties. We intend to initially fund these purchases using operating cash and our unsecured line of credit. If we are unable to subsequently finance these loans in private education loan warehouse facilities and/or securitization transactions, our liquidity could be adversely affected and our opportunities to purchase additional such loans could be limited.

On December 22, 2014, we entered into an agreement with Union Bank in which we will provide marketing, origination, and servicing services to Union Bank related to private education loans. We have committed to purchase, or arrange for a designee to purchase, all volume originated by Union Bank under this agreement. On February 5, 2015, we committed to purchase up to $150.0 million of private education loans originated by CommonBond, Inc., a student lending company that provides private education loans to graduate students.

We intend to use operating cash and our unsecured line of credit to initially fund these purchases of private education loans. We are currently forming a private education loan warehouse facility to be used to pool loans before financing them under more permanent securitization financing arrangements. If we are not successful in establishing specific financing facilities for private education loans, our liquidity could be adversely affected and our opportunities to purchase additional such loans could be limited.

We are subject to economic and market fluctuations related to our investments.

We currently invest a substantial portion of our excess cash in student loan asset-backed securities and other investments that are subject to market fluctuations. The amount of these investments was $149.1 million as of December 31, 2014, including $145.0 million in student loan asset-backed securities. These securities earn a floating interest rate and carry expected returns of approximately LIBOR + 200-500 basis points to maturity. While the vast majority of these securities are backed by FFELP government guaranteed student loan collateral, most are in subordinate tranches and have a greater risk of loss with respect to the applicable student loan collateral pool. While we expect these securities to have few credit issues if held to maturity, they do have limited liquidity, and we could incur a significant loss if the investments were sold prior to maturity at an amount less than the original purchase price.

Operations

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

A failure in or breach of one of our operational or information systems or infrastructure, or those of our third-party vendors, could disrupt our businesses. These types of failures or breaches, including but not limited to cyber attacks, could result in a denial of service or misuse of confidential or proprietary information which could damage our reputation, increase costs, and jeopardize existing business contracts or result in regulatory penalties.

As a loan servicer, hosted loan servicing software provider, and payment processor for the federal government, financial institutions, and the education industry that serves millions of customers through the Internet and other distribution channels across the U.S., we depend on our ability to process, secure, record, and monitor a large number of customer transactions and confidential information on a continuous basis.

Information security risks have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to support and process customer transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Our operations rely on the secure processing, transmission, and storage of confidential information in our computer systems and networks. Our business segments rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. In addition, to access our products and services, our customers may use personal smartphones, tablet PC's, and other mobile devices that are beyond our control systems. Although we believe we have robust information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of Company or customer confidential, proprietary, and other information, or disrupt the Company's or our customers' business operations. A cyber attack or information security breach of this nature could significantly affect our ability to retain strategic business customers, which could lead to increased costs to retain customers or result in regulatory penalties or a material loss of future revenue.

Third parties with which we do business or that facilitate our business activities, including financial intermediaries, data centers, data storage locations, collection services, distribution centers, or other vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

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

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

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Additionally, we must continually and cost-effectively maintain and improve our information technology systems and infrastructure in order to successfully deliver competitive products and services to our customers. The widespread adoption of new technologies and market demands could require substantial expenditures to enhance system infrastructure and existing products and services. If we fail to enhance and scale our systems and operational infrastructure or products and services, our operating segments may lose their competitive advantage and this could adversely affect financial and operating results.
We also face the risk of business disruption if system outages occur as a result of changes in infrastructure, introduction of new software or software enhancements, relocation of infrastructure, or failure to perform required services, which could have a material impact upon our reputation and our ability to retain customers. Although we have business continuity management plans, a major physical disaster or other calamity that causes significant damage to or the loss of our information systems or business operations for a sustained period of time could adversely affect our business, cash flows, and ability to retain customers.

We must satisfy certain requirements necessary to maintain the federal guarantees of our federally insured loans, and we may incur penalties or lose our guarantees if we fail to meet these requirements.

As of December 31, 2014, we serviced $25.0 billion of FFELP loans that maintained a federal guarantee, of which $19.7 billion and $5.3 billion were owned by the Company and third-party entities, respectively.

We must meet various requirements in order to maintain the federal guarantee on our federally insured loans. The federal guarantee on our federally insured loans is conditional based on our compliance with origination, servicing, and collection policies set by the Department and guaranty agencies. Federally insured loans that are not originated, disbursed, or serviced in accordance with the Department's and guaranty agency regulations may risk partial or complete loss of the guarantee. If we experience a high rate of servicing deficiencies (including any deficiencies resulting from the conversion of loans from one servicing platform to another, errors in the loan origination process, establishment of the borrower's repayment status, and due diligence or claim filing processes), it could result in the loan guarantee being revoked or denied. In most cases we have the opportunity to cure these deficiencies by following a prescribed cure process which usually involves obtaining the borrower's reaffirmation of the debt. However, not all deficiencies can be cured.

We are allowed three years from the date of the loan rejection to cure most loan rejections. If a cure cannot be achieved during this three year period, insurance is permanently revoked, although we maintain our right to collect the loan proceeds from the borrower. In cases where we purchase loans that were serviced previously by another servicing institution and we identify a serving deficiency by the prior servicer, we may, based on the terms of the purchase agreement, have the ability to require the previous lender to repurchase the rejected loans.

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

Failure to comply with federal and guarantor regulations may result in penalties, a loss of special allowance payment benefits, or a loss of the federal guarantee. A loss of a federal guarantee on a third party serviced loan could subject us to potential claims from our servicing customers.

Our largest fee-based customer, the Department of Education, represents approximately 10 percent of our revenue. Failure to extend the Department contract, unfavorable contract modifications, or our inability to consistently surpass competitor performance metrics, could significantly lower loan servicing revenue and hinder future servicing opportunities.

We are one of four private sector companies awarded a student loan servicing contract by the Department to provide additional servicing capacity for loans owned by the Department. Our contract with the Department expires on June 16, 2019. As of December 31, 2014, we were servicing $133.6 billion of student loans for 5.9 million borrowers under this contract. For the year ended December 31, 2014, we recognized $124.4 million in revenue from the Department, which represented approximately 10 percent of our revenue. In the event the Department servicing contract is not extended beyond the current expiration date or substantial unfavorable modifications are made to the existing Department contract, loan servicing revenue would decrease significantly.

New loan volume is currently being allocated among the four servicers based on certain performance metrics established by the Department. The amount of future allocations of new loan volume could be negatively impacted if we are unable to consistently surpass competitor performance metrics. The Department also has contracts with not-for-profit entities to service student loans who historically received small servicing allocations from the Department. However, effective January 1, 2015, these entities began to receive 25 percent of new borrower servicing allocations from the Department. This will decrease new allocation volume for us.

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

Federal budget deficits and their effect on budgetary and regulatory provisions could adversely impact future revenue.

A significant portion of guaranty servicing revenue earned by us relates to rehabilitating defaulted FFELP loans (collection services). Recent federal budget provisions that became effective July 1, 2014 have reduced payments by the Department to guaranty agencies for assisting student loan borrowers with the rehabilitation of defaulted loans under FFELP. These provisions reduced the amount guaranty agencies retain upon successful rehabilitation from 37 percent to 16 percent of the loan balance. We earn revenue from rehabilitating defaulted FFELP student loans on behalf of guaranty agencies. The decrease in the retention percent earned by guaranty agencies negatively impacted our guaranty collections revenue, and also contributed to a reduction in our operating margin. During the year ended December 31, 2014, we recognized $41.6 million in revenue from rehabilitating defaulted FFELP loans for guaranty agencies. Prior to the July 1, 2014 rate change, we recognized $30.7 million in revenue during the first two quarters of 2014 compared to $10.9 million during the last two quarters of 2014. The Company anticipates that guaranty agencies will continue to operate with reduced levels of FFELP student loan rehabilitation activities as a result of the reduced payment framework.

Approximately 70 percent of our guaranty servicing revenue comes from a single guaranty servicing client. The current term of the contract with this client expires on October 31, 2015 and is subject to renewal. Given the significant reduction in rehabilitation collection revenue resulting from changes in federal budget provisions that became effective July 1, 2014, the terms of this contract could be modified in ways that reduce our amount of guaranty servicing revenue even further or the agreement could be terminated.

In the future, the federal government could engage in prolonged debates related to the federal deficit, debt ceiling, and other budget spending issues. If U.S. lawmakers fail to reach agreement on these issues, the federal government could stop or delay payment on its obligations, including those on services we provide. We cannot predict how or what programs will be impacted by any actions that Congress or the federal government may take. Legislation to address the federal deficit and spending could include proposals that adversely affect our cash flow, revenue, and profit margins.

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

We are subject to various laws, regulations, and industry standards related to our commercial and government contracts. In most cases, these contracts are subject to termination rights, audits, and investigations. If we are found to be in noncompliance with the contract provisions or applicable laws, regulations, or standards, or the contracted party exercises its termination or other rights for that or other reasons, our reputation could be negatively affected, and our ability to compete for new contracts or maintain existing contracts could diminish. If this were to occur, our results of operations from existing contracts and future opportunities for new contracts could be negatively affected.

Regulatory and Legal

Federal and state laws and regulations can restrict our business, and noncompliance with these laws and regulations could result in penalties, litigation, reputation damage, and a loss of customers.

Our operating segments and customers are heavily regulated by federal and state government regulatory agencies. The laws and regulations enforced by these agencies are proposed or enacted to protect consumers and the financial industry as a whole, not necessarily the Company, our operating segments, or our shareholders. We have procedures and controls in place to monitor compliance with numerous federal and state laws and regulations. However, because these laws and regulations are complex, differ between jurisdictions, and are often subject to interpretation, or as a result of unintended errors, we may, from time to time, inadvertently violate these laws and regulations. Compliance with these laws and regulations is expensive and requires the time and attention of management. These costs divert capital and focus away from efforts intended to grow our business. If we do not successfully comply with laws, regulations, or policies, we could incur fines or penalties, lose existing or new customer contracts, or suffer damage to our reputation. Changes in these laws and regulations can significantly alter our business environment, limit business operations, and increase costs of doing business, and we cannot predict the impact such changes would have on our profitability. The use of Executive Order provisions from the Executive Branch of the Federal Government has created new regulations that have impacted us. The use of Executive Order provisions to define regulations creates additional uncertainty and risks within the education and student loan industry.

Our Student Loan and Guaranty Servicing and Asset Generation and Management operating segments are subject to the Higher Education Act and various consumer protection and privacy regulations. These operating segments take what we believe are necessary steps to evaluate, monitor, and comply with these regulations. However, the Department or other government agencies could, based on regulatory interpretation, determine we are not compliant. Failure to comply with these regulations could lead to a loss of the guarantee on our federally insured loans, increased servicing costs to cure such loans, or suspension or termination of our rights to participate as a servicer, negative publicity, or potential legal claims. Although new FFELP loan originations were eliminated effective July 1, 2010, we continue to face risks from potential legislative changes or other government initiatives with respect to existing FFELP loans. Congress is currently evaluating proposals to reauthorize the Higher Education Act. If the federal government or the Department initiate additional loan forgiveness, repayment options, or consolidation loan programs, these initiatives could further increase prepayments, reduce servicing fees, and lower interest income.

Certain provisions of the Higher Education Act that became effective July 1, 2011 have impacted our Enrollment Services operating segment in connection with services it provides to for-profit schools. To be eligible to participate in federal student aid programs, the Higher Education Act requires educational institutions, including for-profit schools, to enter into a program participation agreement with the Department. This agreement includes a number of requirements with which an institution must comply to be granted initial and continuing eligibility to participate in the federal student aid program. The related regulations impose strict liability on educational institutions for misrepresentations made by entities, like us, who contract with these institutions to provide marketing services. As a result, our school customers have demanded, and in limited circumstances we have agreed to, limited contractual indemnification provisions for our customers that cover actions by our third-party inquiry generation vendors. Significantly all inquiry generation and management revenue (which makes up approximately 76 percent of total revenue included in the Enrollment Services business) was generated from for-profit schools in 2014. The regulations discussed above may subject us to greater risk of liability and may increase our cost of compliance with these regulations or limit our ability to serve for-profit schools. In addition, the regulations could negatively impact enrollment at for-profit schools, which could adversely affect revenue. For a variety of business reasons, including the risk of liability, the Company made the decision to exit the lead generation business in 2014. We continue to provide marketing services for education institution customers.

The Dodd-Frank Act established the Consumer Financial Protection Bureau (the “CFPB”), which has broad authority to regulate a wide range of consumer financial products and services. On December 3, 2013, the CFPB issued a rule that allows the CFPB to supervise nonbank student loan servicers that handle more than one million borrowers, including the Company, thus giving the CFPB broad authority to examine, investigate, supervise, and otherwise regulate our businesses, including the authority to impose fines and require changes with respect to any practices that the CFPB finds to be unfair, deceptive, or abusive. There is significant uncertainty regarding how the CFPB's strategies and priorities will impact our businesses and our results of operations going forward. Actions by the CFPB could result in requirements to alter our services, causing them to be less attractive or effective and impair our ability to offer them profitably. In the event that the CFPB changes regulations adopted in the past by other regulators, or modifies past regulatory guidance, our compliance costs and litigation exposure could increase. Our litigation exposure could also increase if the CFPB exercises its authority to limit or ban pre-dispute arbitration clauses in contracts for consumer financial services.

Additionally, the Dodd-Frank Act authorizes state officials to enforce regulations issued by the CFPB. Most states also have statutes that prohibit unfair and deceptive practices. To the extent states enact requirements that differ from federal standards or state officials and courts adopt interpretations of federal consumer laws that differ from those adopted by the CFPB under the Dodd-Frank Act, or states increase their examination, supervision, and enforcement activities, our ability to offer the same products and services to consumers nationwide may be limited and we may be subject to a higher risk of state enforcement actions.

We provide marketing, origination, and loan servicing services related to private education loans. Over the last couple of years, private education loans have received considerable focus from the CFPB. CFPB industry reports have included reconsideration by Congress of the federal Bankruptcy Code’s treatment of private education loans, reforms to disclosures, and guidelines that apply to payment application, borrower benefits, record retention, and other aspects of student loan servicing similar to changes previously made for the credit card and mortgage businesses. These or other regulatory changes to private education loans may adversely impact the profitability and growth of this business opportunity.

The CFPB is currently conducting its initial supervisory examination of the large nonbank student loan servicers, including the Company. If the CFPB were to determine we were not in compliance, it is possible that this could result in material adverse consequences, including, without limitation, settlements, fines, penalties, adverse regulatory actions, changes in our business practices, or other actions. However, we are unable to estimate at this time any potential financial or other impact that could result from the CFPB's examination, in the event that any adverse regulatory actions occur.

The Dodd-Frank Act also provides the Commodity Futures Trading Commission (the "CFTC") and the SEC with substantial authority to regulate over-the-counter derivative transactions, and includes provisions that require derivative transactions to be executed through an exchange or central clearinghouse. There are also new risk retention rules set to go into effect in 2016 that could affect future student loan asset-backed securities transactions by requiring issuers of asset-backed securities or persons who organize and initiate asset-backed securities transactions to retain a portion of the underlying assets' credit risk, disclosure and reporting requirements for each tranche of asset-backed securities, including new loan-level data requirements, and disclosure requirements relating to the representations, warranties, and enforcement mechanisms available to investors. Although we cannot predict the ultimate outcome of these processes and regulations, they may increase our costs and cash collateral margin requirements and affect the terms of future asset-backed securities transactions and derivatives used to manage financial risks related to interest rate and foreign currency exchange rate volatility.

Additionally, the Dodd-Frank Act added provisions commonly referred to as the “Volcker Rule” to U.S. federal banking laws which generally prohibit various covered banking entities from engaging in proprietary trading of financial instruments and limit such entities’ investments in, and relationships with, hedge funds and private equity funds. On December 10, 2013, five U.S. federal regulatory agencies issued final regulations to implement the Volcker Rule. Banking entities subject to the Volcker Rule are currently required to fully conform their activities and investments to the final regulations regarding proprietary trading restrictions by July 21, 2015, and the final regulations regarding investments in and relationships with covered funds by July 21, 2016. As discussed below under “Principal Shareholder and Related Party Transactions,” we have certain relationships with Farmers & Merchants Investment Inc. (“F&M”), which controls Union Bank and Trust Company (“Union Bank”). F&M and Union Bank are banking entities subject to the Volcker Rule. Although we currently believe that the Volcker Rule and the final implementing regulations will not have a material effect on our activities, the Volcker Rule and the final implementing regulations are very complex, and many aspects of their ultimate interpretation, scope, and implementation remain uncertain.

In July 2012, the Federal Communications Commission ("FCC") amended the rules under the Telephone Consumer Protection Act ("TCPA") and promulgated additional amendments that became effective October 2013. Under the

TCPA, plaintiffs may seek actual monetary loss or damages of $500 per violation, whichever is greater, and courts may treble the damage award for willful or knowing violations. In addition, TCPA lawsuits have asserted putative class action claims. Given the large number of communications we have with borrowers and other consumers, a determination that we have violated the TCPA or other communication-based statutes could expose us to significant damage awards that could, individually or in the aggregate, materially harm our business.

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

The Reconciliation Act of 2010 prohibits new loan originations under the FFEL Program and requires that all new federal loan originations be made through the Federal Direct Loan Program. The law did not alter or affect the terms and conditions of existing FFELP loans.

During the years ended December 31, 2014, 2013, and 2012, we recognized approximately $430 million, $406 million, and $344 million, respectively, of net interest income on our FFELP loan portfolio, approximately $80 million, $106 million, and $96 million, respectively, in guaranty and third-party FFELP servicing revenue, and approximately $5 million, $7 million, and $6 million, respectively, in FFELP loan servicing software licensing and consulting fees related to the FFEL Program. These amounts will decline over time as our and our third-party lender clients' FFELP loan portfolios are paid down.

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

Industry changes and competitive pressures may harm revenue and profit margins.

We face aggressive price competition for our products and services and, as a result, we may have to lower our product and service prices to stay competitive, while at the same time, expand market share and maintain profit margins. Even if we are able to maintain or increase market share for a product or service, revenue or profit margins could decline because the product or service is in a maturing market or market conditions have changed due to economic, political, or regulatory pressures.

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

Federal and state income tax laws and regulations are often complex and require interpretation. The nexus standards and the sourcing of receipts from intangible personal property and services have been the subject of state audits and litigation with state taxing authorities and tax policy debates by various state legislatures. As the U.S. Congress and U.S. Supreme Court have not provided clear guidance in this regard, conflicting state laws and court decisions create significant uncertainty and expense for taxpayers conducting interstate commerce. Changes in income tax regulations could negatively impact our results of operations. If states enact legislation, alter apportionment methodologies, or aggressively apply the income tax nexus standards, we may become subject to additional state taxes.

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

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

The costs and effects of litigation, investigations, or similar matters, or adverse facts and developments related thereto, could materially affect our financial position, results of operations, and cash flows.

We may be involved from time to time in a variety of lawsuits, investigations, or similar matters arising out of our business operations. Our insurance may not cover all claims that may be asserted against us, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. If the ultimate judgments or settlements in any litigation or investigation significantly exceed our insurance coverage, they could have a material adverse effect on our financial position, results of operations, and cash flows for any particular period.

Principal Shareholder and Related Party Transactions

Our Executive Chairman beneficially owns 67.3 percent of the voting rights of our shareholders and effectively has control over all matters at our Company.

Michael S. Dunlap, our Executive Chairman and a principal shareholder, beneficially owns 67.3 percent of the voting rights of our shareholders. Accordingly, each member of the Board of Directors and each member of management has been elected or effectively appointed by Mr. Dunlap and can be removed by Mr. Dunlap. As a result, Mr. Dunlap, as Executive Chairman and controlling shareholder, has control over all matters at our Company and has the ability to take actions that benefit him, but may not benefit other minority shareholders, and may otherwise exercise his control in a manner with which other minority shareholders may not agree or which they may not consider to be in their best interests.

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

Union Bank is controlled by F&M, which owns 81.4 percent of Union Bank's common stock and 15.4 percent of Union Bank's non-voting non-convertible preferred stock. Mr. Dunlap, a significant shareholder, as well as Executive Chairman, and a member of our Board of Directors, along with his spouse and children, owns or controls a total of 24.1 percent of the stock of F&M, and Mr. Dunlap's sister, Angela L. Muhleisen, along with her husband and children, owns or controls 47.5 percent of F&M stock. Mr. Dunlap serves as a Director and Chairman of F&M. Ms. Muhleisen serves as Director and President of F&M and as a Director, Chairperson, President, and Chief Executive Officer of Union Bank. Union Bank is deemed to have beneficial ownership of a significant number of shares of Nelnet because it serves in a capacity of trustee or account manager for various trusts and accounts holding shares of Nelnet, and may share voting and/or investment power with respect to such shares. As of December 31, 2014, Union Bank was deemed to beneficially own 16.5 percent of the voting rights of our common stock. As of December 31, 2014, Mr. Dunlap and Ms. Muhleisen beneficially owned 67.3 percent and 21.2 percent, respectively, of the voting rights of our outstanding common stock.

We have entered into certain contractual arrangements with Union Bank, including loan purchases and sales, loan servicing, loan participations, banking services, 529 Plan administration services, lease arrangements, and various other investment and advisory services. The net aggregate impact on our consolidated statements of income for the years ended December 31, 2014, 2013, and 2012 related to the transactions with Union Bank was income (before income taxes) of $17.1 million, $16.6 million, and $11.9 million, respectively. See note 20 of the notes to consolidated financial statements included in this report for additional information related to the transactions between us and Union Bank.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

The following table lists the principal facilities for office space owned or leased by the Company as of December 31, 2014. The Company owns the building in Lincoln, Nebraska where its principal office is located. The building is subject to a lien securing the outstanding mortgage debt on the property.

Location	Primary function or segment	Approximate square feet		Lease expiration date
Lincoln, NE	Corporate Headquarters, Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce	187,000	(a)	–
Highlands Ranch, CO	Student Loan and Guaranty Servicing	67,000		March 2017
Lincoln, NE	Student Loan and Guaranty Servicing, Asset Generation and Management	51,000		November 2023 and March 2024
Aurora, CO	Student Loan and Guaranty Servicing	43,000		September 2019
Omaha, NE (b)	Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce	34,000		December 2020 and December 2025
Lincoln, NE	Student Loan and Guaranty Servicing, Asset Generation and Management	20,000		December 2015 and August 2016
Paramus, NJ (c)	Enrollment Services	18,000		March 2015
Burleson, TX	Tuition Payment Processing and Campus Commerce	17,000		October 2021

(a) Excludes a total of approximately 27,000 square feet of owned office space that the Company leases to third parties.

(b) On December 30, 2014, the Company amended its lease agreement in Omaha, Nebraska, which will result in an increase in total square footage from approximately 34,000 square feet to approximately 53,000 square feet effective in May 2015.

(c) On December 19, 2014, the Company entered into a new lease agreement for approximately 8,000 square feet of office space in Paramus, New Jersey, which takes effect in March 2015 and expires in May 2018. As a result, the Company will terminate its current lease in Paramus as disclosed in the schedule above.

The Company leases other office facilities located throughout the United States. These properties are leased on terms and for durations that are reflective of commercial standards in the communities where these properties are located. The Company believes that its respective properties are generally adequate to meet its long term business goals. The Company's principal office is located at 121 South 13th Street, Suite 100, Lincoln, Nebraska 68508.

ITEM 3. LEGAL PROCEEDINGS

The information required by this Item is incorporated herein by reference to the information set forth under "Legal Proceedings and Regulatory Matters - Legal Proceedings" in note 16 of the notes to consolidated financial statements included in this report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

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

The Company's Class A common stock is listed and traded on the New York Stock Exchange under the symbol “NNI,” while its Class B common stock is not publicly traded. As of January 31, 2015, there were 34,663,780 and 11,486,932 shares of Class A common stock and Class B common stock outstanding, respectively. The number of holders of record of the Company's Class A common stock and Class B common stock as of January 31, 2015 was 1,002 and 27, respectively. The record holders of the Class B common stock are Michael S. Dunlap and Stephen F. Butterfield, an entity controlled by them, various members of their families, and various estate planning trusts established by them. Because many shares of the Company's Class A common stock are held by brokers and other institutions on behalf of shareholders, the Company is unable to estimate the total number of beneficial owners represented by these record holders. The following table sets forth the high and low intraday sales prices for the Company's Class A common stock for each full quarterly period in 2014 and 2013.

	2014				2013			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$44.30	$44.20	$45.91	$48.52	$35.55	$39.98	$41.74	$45.49
Low	34.86	38.42	40.16	42.42	28.85	31.56	36.06	38.00

Dividends on the Company's Class A and Class B common stock were paid as follows during the years ended December 31, 2014 and 2013.

	2014				2013			
Record date	2/28/14	5/30/14	9/1/14	12/1/14	3/1/13	5/31/13	8/30/13	12/2/13
Payment date	3/14/14	6/13/14	9/15/14	12/15/14	3/15/13	6/14/13	9/13/13	12/16/13
Dividend amount per share	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10

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

Performance Graph

The following graph compares the change in the cumulative total shareholder return on the Company's Class A common stock to that of the cumulative return of the S&P 500 Index and the S&P Financials Index. The graph assumes that the value of an investment in the Company's Class A common stock and each index was $100 on December 31, 2009 and that all dividends, if applicable, were reinvested. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

Company/Index	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Nelnet, Inc.	$100.00	$142.15	$149.45	$192.12	$274.63	$304.85
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14
S&P Financials	100.00	112.13	93.00	119.79	162.48	187.17

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

Stock Repurchases

The following table summarizes the repurchases of Class A common stock during the fourth quarter of 2014 by the Company or any “affiliated purchaser” of the Company, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934.

Period	Total number of shares purchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (b)	Maximum number of shares that may yet be purchased under the plans or programs (b)
October 1 - October 31, 2014	22,821	$42.92	22,101	3,550,364
November 1 - November 30, 2014	359	47.29	—	3,550,364
December 1 - December 31, 2014	31,213	44.18	29,398	3,520,966
Total	54,393	$43.67	51,499	

(a) The total number of shares includes: (i) shares repurchased pursuant to the stock repurchase program discussed in footnote (b) below; and (ii) shares owned and tendered by employees to satisfy tax withholding obligations upon the vesting of restricted shares. Shares of Class A common stock tendered by employees to satisfy tax withholding obligations included 720 shares, 359 shares, and 1,815 shares in October, November, and December, respectively. Unless otherwise indicated, shares owned and tendered by employees to satisfy tax withholding obligations were purchased at the closing price of the Company’s shares on the date of vesting.

(b) On May 9, 2012, the Company announced that its Board of Directors had authorized a stock repurchase program to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 24, 2015. Certain share repurchases included in the table above were made pursuant to a trading plan adopted by the Company in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934.

Equity Compensation Plans

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

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and other operating information of the Company. The selected financial data in the table is derived from the consolidated financial statements of the Company. The following selected financial data should be read in conjunction with the consolidated financial statements, the related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this report.

	Year ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands, except share data)				
Operating Data:					
Net interest income	$436,563	413,875	345,287	364,565	371,071
Loan and guaranty servicing revenue	240,414	243,428	209,748	175,657	158,584
Tuition payment processing, school information, and campus commerce revenue	98,156	80,682	74,410	67,797	59,824
Enrollment services revenue	82,883	98,078	117,925	130,470	139,897
Other income	54,002	46,298	39,476	29,513	31,310
Gain on sale of loans and debt repurchases, net	3,651	11,699	4,139	8,340	78,631
Net income attributable to Nelnet, Inc.	307,610	302,672	177,997	204,335	189,034
Earnings per common share attributable to Nelnet, Inc. shareholders - basic and diluted:	6.62	6.50	3.76	4.24	3.82
Dividends per common share	0.40	0.40	1.40	0.37	0.70
Other Data:					
Fixed rate floor income, net of derivative settlements	$179,870	148,431	145,345	144,454	132,243
Core student loan spread	1.48 %	1.54 %	1.44 %	1.52 %	1.48 %
Origination and acquisition of student loans (par value)	$6,099,249	4,058,997	3,885,138	2,841,334	4,202,164
Student loans serviced (at end of period)	161,642,254	138,208,897	97,492,053	76,119,717	61,477,651

	As of December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data:	(Dollars in thousands, except share data)				
Cash and cash equivalents	$130,481	63,267	66,031	42,570	283,801
Student loans receivables, net	28,005,195	25,907,589	24,830,621	24,297,876	24,033,001
Goodwill and intangible assets, net	168,782	123,250	126,511	145,492	155,830
Total assets	30,098,143	27,770,849	26,607,895	25,852,217	25,893,892
Bonds and notes payable	28,027,350	25,955,289	25,098,835	24,434,540	24,672,472
Nelnet, Inc. shareholders' equity	1,725,448	1,443,662	1,165,208	1,066,205	906,633
Tangible Nelnet, Inc. shareholders' equity (a)	1,556,666	1,320,412	1,038,697	920,713	750,803
Book value per common share	37.31	31.13	25.00	22.62	18.75
Tangible book value per common share (a)	33.66	28.47	22.28	19.53	15.53

Ratios:					
Shareholders' equity to total assets	5.73 %	5.20 %	4.38 %	4.12 %	3.50 %

(a) Tangible Nelnet, Inc. shareholders' equity, a non-GAAP measure, equals "Nelnet, Inc. shareholders' equity" less "goodwill" and "intangible assets, net." Management believes presenting tangible equity and tangible book value per common share are useful measures of evaluating the strength of the Company's capital position. These measures may be calculated differently by other companies.

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

(Management's Discussion and Analysis of Financial Condition and Results of Operations is for the years ended December 31, 2014, 2013, and 2012. All dollars are in thousands, except share data, unless otherwise noted.)

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

OVERVIEW

The Company provides educational services in loan servicing, payment processing, education planning, and asset management. These products and services help students and families plan, prepare, and pay for their education and make the administrative and financial processes more efficient for schools and financial organizations. In addition, the Company earns interest income on a portfolio of federally insured student loans.

A reconciliation of the Company's GAAP net income to net income, excluding derivative market value and foreign currency adjustments, is provided below.

	Year ended December 31,		
	2014	2013	2012
GAAP net income attributable to Nelnet, Inc.	$307,610	302,672	177,997
Derivative market value and foreign currency adjustments, net of tax	(23,376)	(30,128)	29,384
Net income, excluding derivative market value and foreign currency adjustments (a)	$284,234	272,544	207,381
Earnings per share:			
GAAP net income attributable to Nelnet, Inc.	$6.62	6.50	3.76
Derivative market value and foreign currency adjustments, net of tax	(0.50)	(0.65)	0.62
Net income, excluding derivative market value and foreign currency adjustments (a)	$6.12	5.85	4.38

(a) The Company provides non-GAAP information that reflects specific items management believes to be important in the evaluation of its financial position and performance. "Derivative market value and foreign currency adjustments" include (i) the unrealized gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars. The Company believes these point-in-time estimates of asset and liability values related to these financial instruments that are subject to interest and currency rate fluctuations affect the period-to-period comparability of the results of operations. Accordingly, the Company provides operating results excluding these items for comparability purposes.

Recent Developments

The Company intends to continue to use its strong liquidity position to capitalize on market opportunities, including FFELP and private education loan acquisitions and strategic acquisitions and investments.

FFELP loans - On January 29, 2015, the Company acquired $582.8 million of FFELP whole loans, which were funded in the Company's FFELP warehouse facilities and participation agreement with Union Bank.

Private education loans - On December 22, 2014, the Company entered into an agreement with Union Bank in which the Company will provide marketing, origination, and loan servicing services to Union Bank related to private education loans. The Company has committed to purchase, or arrange for a designee to purchase, all volume originated by Union Bank under this agreement.

On February 5, 2015, the Company made a minority equity investment in CommonBond, Inc. ("CommonBond"), a student lending company that provides private education loans to graduate students. In addition, the Company has committed to purchase up to $150.0 million of private education loans originated by CommonBond.

On February 19, 2015, the Company acquired $65.0 million of private education loans at par value from non-affiliated third-parties. The loans acquired were subject to certain repurchase obligations by the Company's servicing business.

The Company intends to use operating cash and its unsecured line of credit to initially fund these purchases of private education loans. The Company is currently forming a private education loan warehouse facility to be used to pool loans before financing them under more permanent securitization financing arrangements.

Operating Results

The Company earns net interest income on its FFELP student loan portfolio in its Asset Generation and Management ("AGM") operating segment. This segment is expected to generate a stable net interest margin and significant amounts of cash as the FFELP portfolio amortizes. As of December 31, 2014, the Company had a $28.0 billion student loan portfolio that will amortize over the next 25 years. The Company actively seeks to acquire FFELP loan portfolios to leverage its servicing scale and expertise to generate incremental earnings and cash flow.

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

- Student Loan and Guaranty Servicing ("LGS") - referred to as Nelnet Diversified Solutions ("NDS")
- Tuition Payment Processing and Campus Commerce ("TPP&CC") - referred to as Nelnet Business Solutions ("NBS")

The increase in earnings in 2014 compared to 2013 was due to an increase in net interest income earned from the Company's student loan portfolio. This increase was partially offset by the expected decrease in net income from the Company's Student Loan and Guaranty Servicing operating segment.

The information below provides the operating results for each reportable operating segment for the years ended December 31, 2014, 2013, and 2012 (dollars in millions).

(a) Revenue includes intersegment revenue of $55.1 million, $56.7 million, and $65.4 million for the years ended December 31, 2014, 2013, and 2012, respectively, earned by LGS as a result of servicing loans for AGM.

(b) Revenue includes "net interest income after provision for loan losses" and "total other income" from the Company's segment statements of income, excluding the impact from changes in fair values of derivatives and foreign currency transaction adjustments, which was income of $42.9 million and $35.3 million for the years ended December 31, 2014 and 2013, respectively, and an expense of $51.8 million for the year ended December 31, 2012. Net income excludes changes in fair values of derivatives and foreign currency transaction adjustments, net of tax, which was income of $26.6 million and $21.9 million for the years ended December 31, 2014 and 2013, respectively, and an expense of $32.1 million for the year ended December 31, 2012.

(c) Computed as income before income taxes divided by total revenue.

A summary of the results and financial highlights for each reportable operating segment and a summary of the Company's liquidity and capital resources follows. See "Results of Operations" for each reportable operating segment and "Liquidity and Capital Resources" under this Item 7 for additional detail.

Student Loan and Guaranty Servicing

- As of December 31, 2014, the Company was servicing $161.6 billion in FFELP, private, and government owned student loans, as compared with $138.2 billion and $97.5 billion of loans as of December 31, 2013 and 2012, respectively. The year over year increase was due to an increase in government servicing volume.

- Revenue decreased in 2014 compared to 2013 due to decreases in rehabilitation collection revenue, traditional FFELP and guaranty servicing revenue, and software services revenue, which were partially offset by growth in servicing volume under the Company's contract with the Department. The increase in revenue in 2013 compared to 2012 was due primarily to the growth in servicing volume under the Department contract and an increase in rehabilitation collection revenue, which were partially offset by decreases in traditional FFELP and guaranty servicing revenue and software services revenue.

- Operating margin decreased in 2014 compared to 2013 as a result of the implementation of federal budget reductions for guaranty agencies' revenue. In addition, as the volume of loans serviced under the Department servicing contract continues to grow and loans serviced under the legacy commercial programs continue to run off, the Company expects operating margins to tighten accordingly. Operating margin increased in 2013 compared to 2012 as a result of the investments made and certain costs incurred by the Company in 2012 to improve performance metrics under the Department servicing contract and to implement and comply with the Department's special direct consolidation loan initiative. In addition, intangible assets for this segment were fully amortized in 2012.

Tuition Payment Processing and Campus Commerce

- Revenue increased in 2014 and 2013, compared to 2013 and 2012, respectively, due to increases in the number of managed tuition payment plans, campus commerce customer transaction volume, and new school customers. In addition, the Company purchased RenWeb on June 3, 2014, which increased revenue in 2014.

- Before tax operating margin excluding amortization of intangibles was 27.6%, 30.7%, and 28.7% for 2014, 2013, and 2012, respectively. The decrease in margin in 2014 compared to 2013 was primarily due to a change in the mix of products and services provided as a result of the acquisition of RenWeb. The increase in margin in 2013 compared to 2012 was the result of efficiencies gained in the operations of the business during 2013. In addition, certain investments were made by the Company during 2012 in new products and services to meet customer needs and expand product and service offerings.

Asset Generation and Management

- The Company acquired $6.1 billion of FFELP student loans during 2014, compared to $4.1 billion in 2013 and $3.9 billion in 2012. The average loan portfolio balance for 2014, 2013, and 2012 was $28.0 billion, $25.0 billion, and $23.7 billion, respectively.

- Core student loan spread decreased to 1.48% for 2014, compared to 1.54% for 2013. This decrease was due to recent acquisitions of consolidation loans, which have lower margins, but longer terms.

- Due to historically low interest rates, the Company continues to earn significant fixed rate floor income. During 2014, 2013, and 2012, the Company earned $179.9 million, $148.4 million, and $145.3 million, respectively, of fixed rate floor income (net of $24.4 million, $31.0 million, and $19.3 million of derivative settlements, respectively, used to hedge such loans).

Corporate and Other Activities

- In 2014, management determined that the Company's Enrollment Services business no longer met the quantitative thresholds for which separate information about an operating segment is required. For segment reporting purposes, business activities and operating segments that are not reportable are combined and included in "Corporate and Other Activities." Beginning in 2014, the operating results of Enrollment Services are included with Corporate and Other Activities. Prior period segment operating results were restated to conform to the current period presentation. Revenue for Enrollment Services was $82.9 million, $98.1 million, and $117.9 million in 2014, 2013, and 2012, respectively. Net income (loss) for the Enrollment Services business was ($0.2 million), $0.6 million, and ($3.7 million) in 2014, 2013, and 2012, respectively. Revenues from these services have been affected by the ongoing regulatory uncertainty regarding recruiting and marketing to potential students in the for-profit college industry, which has caused schools to decrease spending on marketing efforts.

- Whitetail Rock Capital Management, LLC, the Company's SEC-registered investment advisory subsidiary, recognized revenue of $17.5 million, $17.4 million, and $9.3 million for 2014, 2013, and 2012, respectively. These amounts include performance fees earned from the sale of managed securities or managed securities being called prior to the full contractual maturity.

Liquidity and Capital Resources

- As of December 31, 2014, the Company had cash and investments of $279.6 million.

- For the year ended December 31, 2014, the Company generated $357.4 million in net cash provided by operating activities.

- Forecasted undiscounted future cash flows from the Company's FFELP student loan portfolio financed in asset-backed securitization transactions are estimated to be approximately $2.29 billion as of December 31, 2014.

- As of December 31, 2014, no amounts were outstanding on the Company's unsecured line of credit and $350.0 million was available for future use. The unsecured line of credit has a maturity date of June 30, 2019.

- During 2014, the Company repurchased a total of 381,689 shares of Class A common stock for $15.7 million ($41.17 per share).

- During 2014, the Company repurchased a total of $54.0 million (par value) of its own asset-backed and unsecured debt securities for a gain totaling $6.6 million.

- During 2014, the Company paid cash dividends of $18.5 million.

- The Company intends to use its strong liquidity position to capitalize on market opportunities, including FFELP and private education loan acquisitions; strategic acquisitions and investments in loan financing, loan servicing, and payment processing; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions.

CONSOLIDATED RESULTS OF OPERATIONS

An analysis of the Company's operating results for the years ended December 31, 2014, 2013, and 2012 is provided below.

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

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

	Year ended December 31,			
	2014	2013	2012	Additional information
Loan interest	$703,007	638,142	609,237	Increase in 2014 from 2013 was due to an increase in the average student loan portfolio balance, gross fixed rate floor income, and student loan discount accretion (net), partially offset by an increase in consolidation rebate fees. Increase in 2013 from 2012 was due to an increase in the average student loan balance and student loan discount accretion (net), partially offset by an increase in consolidation rebate fees and a slight decrease in gross variable student loan yield.
Investment interest	6,793	6,668	4,616	Includes income from unrestricted interest-earning deposits and investments and funds in asset-backed securitizations.
Total interest income	709,800	644,810	613,853	
Interest expense	273,237	230,935	268,566	The increase in 2014 compared to 2013 was due to an increase in average debt outstanding and an increase in the Company's cost of funds. The decrease in 2013 compared to 2012 was due to a decrease in student loan cost of funds, partially offset by an increase in average debt outstanding.
Net interest income	436,563	413,875	345,287	See table below for additional analysis.
Less provision for loan losses	9,500	18,500	21,500	Represents the periodic expense of maintaining an allowance appropriate to absorb losses inherent in the portfolio of student loans. See AGM operating segment - results of operations.
Net interest income after provision for loan losses	427,063	395,375	323,787	
Other income (expense):				
LGS revenue	240,414	243,428	209,748	See LGS operating segment - results of operations.
TPP&CC revenue	98,156	80,682	74,410	See TPP&CC operating segment - results of operations.
Enrollment services revenue	82,883	98,078	117,925	See table below for additional analysis.
Other income	54,002	46,298	39,476	See table below for the components of "other income."
Gain on sale of loans and debt repurchases, net	3,651	11,699	4,139	Gain was primarily from the repurchase of the Company's own asset-backed and unsecured debt securities. In 2014, gains from debt repurchases were partially offset by losses on the sale of loans.
Derivative settlements, net	(21,843)	(29,636)	(14,022)	The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative settlements for each applicable period should be evaluated with the Company's net interest income. See table below for additional analysis.
Derivative market value and foreign currency adjustments,	37,703	48,593	(47,394)	Includes (i) the unrealized gains and losses that are caused by changes in fair values of derivatives

net				which do not qualify for "hedge treatment" under GAAP; and (ii) the foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars.
Total other income	494,966	499,142	384,282	
Operating expenses:				
Salaries and benefits	228,079	196,169	192,826	Increases due to additional personnel to support increased LGS servicing volume and TPP&CC revenue, as well as increased headcount as a result of a TPP&CC acquisition during 2014, partially offset by expense reductions related to enrollment services activities.
Cost to provide enrollment services	53,307	64,961	78,375	See table below for additional analysis.
Depreciation and amortization	21,134	18,311	33,625	Amortization expense for 2014, 2013, and 2012 was $6.5 million, $3.3 million, and $19.0 million, respectively. Increase in 2014 compared to 2013 was due to additional expense from the amortization of intangible assets as a result of an acquisition in the TPP&CC operating segment. Decrease in 2013 was due to certain intangible assets becoming fully amortized in 2012.
Other	149,990	149,542	128,738	Increase was due to an increase in (i) third party loan servicing fees incurred by AGM as volume at third parties has grown with recent loan purchases, (ii) costs incurred by LGS to support increased servicing volume; and (iii) additional costs in 2014 due to an acquisition in the TPP&CC operating segment in 2014. During 2014, increases in expense were partially offset by a decrease in guaranty collection costs incurred related to rehabilitating defaulted FFELP loans on behalf of guaranty agencies.
Total operating expenses	452,510	428,983	433,564	
Income before income taxes	469,519	465,534	274,505	
Income tax expense	160,238	161,193	96,077	Effective tax rate: 2014 - 34.25%, 2013 - 34.75%, 2012 - 35.00%. During 2014, income tax expense was reduced by $5.9 million due to a tax capital loss resulting from certain asset sales. During 2013, income tax expense was reduced by $5.3 million due to the resolution of certain tax positions. During 2012, state income tax laws were enacted that reduced the Company's income tax expense by $4.6 million. The Company expects its effective tax rate to range between 36% and 38% in future periods.
Net income	309,281	304,341	178,428	
Net income attributable to noncontrolling interest	1,671	1,669	431	
Net income attributable to Nelnet, Inc.	$307,610	302,672	177,997	
Additional information:				
	$307,610	302,672	177,997	

Net income attributable to Nelnet, Inc.				The Company provides non-GAAP information that reflects specific items management believes to be important in the evaluation of its operating results. The Company believes the point-in-time estimates of asset and liability values related to its derivatives and Euro-denominated bonds that are subject to interest and currency rate fluctuations affect the period-to-period comparability of the results of operations. These items are excluded here for comparability purposes.
Derivative market value and foreign currency adjustments	(37,703)	(48,593)	47,394	
Tax effect	14,327	18,465	(18,010)	
Net income attributable to Nelnet, Inc., excluding derivative market value and foreign currency adjustments	$284,234	272,544	207,381	

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

	Year ended December 31, 2014	2013	2012	Additional information
Variable student loan interest margin, net of settlements on derivatives	$234,814	235,480	192,021	Represents the yield the Company receives on its student loan portfolio less the cost of funding these loans. Variable student loan spread is also impacted by the amortization/accretion of loan premiums and discounts, the 1.05% per year consolidation loan rebate fee paid to the Department, and yield adjustments from borrower benefit programs. See AGM operating segment - results of operations.
Fixed rate floor income, net of settlements on derivatives	179,870	148,431	145,345	The Company has a portfolio of student loans that are earning interest at a fixed borrower rate which exceeds the statutorily defined variable lender rates, generating fixed rate floor income. See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk" for additional information.
Investment interest	6,793	6,668	4,616	
Non-portfolio related derivative settlements	(1,026)	(1,671)	(2,232)	
Corporate debt interest expense	(5,731)	(4,669)	(8,485)	Includes interest expense on the Junior Subordinated Hybrid Securities and unsecured and secured lines of credit.
Net interest income (net of settlements on derivatives)	$414,720	384,239	331,265	

The following tables summarize the components of "Enrollment services revenue" and "cost to provide enrollment services."

	Inquiry management (marketing) (a)	Inquiry management (software)	Inquiry generation (a)	Digital marketing	Content solutions	Total
	Year ended December 31, 2014					
Enrollment services revenue	$51,998	3,640	7,311	4,488	15,446	82,883
Cost to provide enrollment services	45,892	—	4,093	379	2,943	53,307
Gross profit	$6,106	3,640	3,218	4,109	12,503	29,576
Gross profit %	11.7%		44.0%			
	Year ended December 31, 2013					
Enrollment services revenue	$59,852	3,985	14,285	4,399	15,557	98,078
Cost to provide enrollment services	52,919	—	9,108	318	2,616	64,961
Gross profit	$6,933	3,985	5,177	4,081	12,941	33,117

Gross profit %	11.6%		36.2%			
	Year ended December 31, 2012					
Enrollment services revenue	$72,930	3,620	17,650	4,850	18,875	117,925
Cost to provide enrollment services	64,705	—	10,717	268	2,685	78,375
Gross profit	$8,225	3,620	6,933	4,582	16,190	39,550
Gross profit %	11.3%		39.3%			

(a) Inquiry management (marketing) revenue decreased $7.9 million (13.1%) and $13.1 million (17.9%) in 2014 and 2013, respectively, compared to 2013 and 2012, respectively. Inquiry generation revenue decreased $7.0 million (48.8%) and $3.4 million (19.1%) in 2014 and 2013, respectively, compared to 2013 and 2012, respectively. Revenues from these services have been affected by the ongoing regulatory uncertainty regarding recruiting and marketing to potential students in the for-profit college industry, which has caused schools to decrease spending on marketing efforts. Additionally, clients are shifting marketing budgets to more efficient or lower cost channels, which has caused a reduction in volume. Effective August 29, 2014 the Company stopped providing inquiry generation services.

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

	Year ended December 31,		
	2014	2013	2012
Borrower late fee income	$14,760	12,686	13,876
Investment advisory fees (a)	17,530	17,422	9,347
Realized and unrealized gains/(losses) on investments, net	7,052	6,094	6,914
Reduction of repurchase obligation (b)	4,235	—	—
Other	10,425	10,096	9,339
Other income	$54,002	46,298	39,476

(a) The Company provides investment advisory services under various arrangements and earns annual fees of 25 basis points on the outstanding balance of investments and up to 50 percent of the gains from the sale of securities for which it provides advisory services. As of December 31, 2014, the outstanding balance of investments subject to these arrangements was $841.3 million.

(b) During 2014, the Company recognized income related to the modification of certain servicing agreements in which the Company's loan repurchase obligation was reduced.

STUDENT LOAN AND GUARANTY SERVICING OPERATING SEGMENT – RESULTS OF OPERATIONS

Student Loan Servicing Volumes (dollars in millions)

Company owned	$22,650	$21,237	$20,820	$20,629	$20,715	$21,397	$21,192	$21,110	$20,511	$19,742
% of total	29.8%	21.8%	18.5%	17.7%	15.3%	15.5%	14.3%	14.1%	12.9%	12.2%
Number of servicing borrowers:										
Government servicing	3,036,534	3,892,929	4,261,637	4,396,341	5,145,901	5,305,498	5,438,933	5,465,395	5,824,743	5,915,449
FFELP servicing	1,799,484	1,626,146	1,586,312	1,529,203	1,507,452	1,462,122	1,426,435	1,390,541	1,404,619	1,397,295
Private servicing	164,554	173,948	170,224	173,588	178,935	195,580	191,606	186,863	200,095	202,529
Total:	5,000,572	5,693,023	6,018,173	6,099,132	6,832,288	6,963,200	7,056,974	7,042,799	7,429,457	7,515,273
Number of remote hosted borrowers	9,566,296	6,912,204	5,001,695	3,218,896	1,986,886	1,915,203	1,796,287	1,735,594	1,677,547	1,611,654

Summary and Comparison of Operating Results

	Year ended December 31,			
	2014	2013	2012	Additional information
Net interest income	$30	40	53	
Loan and guaranty servicing revenue	240,414	243,428	209,748	See table below for additional analysis.
Intersegment servicing revenue	55,139	56,744	65,376	Represents revenue earned by the LGS operating segment as a result of servicing loans for the AGM operating segment. Year over year decrease was due to portfolio run-off.
Total other income	295,553	300,172	275,124	
Salaries and benefits	138,584	119,092	115,126	Increase due to additional personnel to support the increase in volume under the government servicing contract.
Depreciation and amortization	10,742	11,419	18,415	Intangible assets were fully amortized during 2012. Amortization expense for 2012 was $8.7 million.
Other expenses	70,211	79,116	70,505	Collection costs associated with FFELP guaranty collection revenue was $24.3 million, $32.0 million, and $28.0 million in 2014, 2013, and 2012, respectively. Excluding collection costs, other expenses were $45.9 million, $47.1 million, and $42.5 million in 2014, 2013, and 2012, respectively. The increase in 2013 compared to 2012 was due to additional servicing volume. The decrease in 2014 compared to 2013 was due to cost saving initiatives.
Intersegment expenses, net	4,208	4,359	5,280	
Total operating expenses	223,745	213,986	209,326	
Income before income taxes and corporate overhead allocation	71,838	86,226	65,851	
Corporate overhead allocation	(9,029)	(6,150)	(5,904)	
Income before income taxes	62,809	80,076	59,947	
Income tax expense	(23,867)	(30,430)	(22,780)	
Net income	$38,942	49,646	37,167	
Before tax operating margin	21.2 %	26.7 %	21.8 %	The increase in operating margin in 2013 compared to 2012 was the result of the investments made and certain costs incurred by the Company in 2012 to improve performance metrics under the Department servicing contract and to implement and comply with the Department's special direct consolidation loan initiative. In addition, intangible assets for this segment were fully amortized in 2012. This segment experienced a reduction in operating margin in 2014 compared to 2013 as a result of the implementation of previously announced federal budget reductions for guaranty agencies' revenue. In addition, as the volume of loans serviced under the Department servicing contract continues to grow and loans

serviced under the legacy commercial programs continue to run off, the Company expects operating margins to tighten accordingly.

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Loan and guaranty servicing revenue

	Year ended December 31,			
	2014	2013	2012	Additional information
Government servicing	$124,378	97,351	69,493	Increase due to an increase in the number of borrowers serviced under the government servicing contract.
FFELP servicing	13,334	20,420	24,255	Decrease will continue as third-party customers' FFELP portfolios run off.
Private servicing	10,497	9,485	9,201	Increase due to an increase in the number of borrowers serviced for third-party customers.
FFELP guaranty servicing	11,284	12,251	13,183	Decrease will continue as FFELP portfolios run off and guaranty volume decreases.
FFELP guaranty collection	55,369	73,628	58,926	The Company earns revenue from rehabilitating defaulted FFELP loans on behalf of guaranty agencies. Over time, this FFELP-related revenue source will decrease as FFELP portfolios continue to run off. Also, recent federal budget provisions that became effective July 1, 2014 have reduced payments by the Department to guaranty agencies for assisting student loan borrowers with the rehabilitation of defaulted loans under FFELP. Rehabilitation collection revenue was $41.6 million, $54.2 million, and $43.8 million in 2014, 2013, and 2012, respectively. This revenue was negatively impacted in 2014 as a result of these federal budget provisions. Rehabilitation collection revenue for the period from July 1, 2014, when the reduced payment framework became effective, to December 31, 2014 was $10.9 million. The Company anticipates this revenue will continue to be negatively impacted as a result of these federal budget provisions.
Software services	22,349	28,609	33,512	In October 2011, the Company began providing hosted student loan servicing to a significant customer. The contract with this customer expired in December 2013. The number of remote hosted borrowers and related revenue decreased from this customer throughout 2013 as this customer's loan volume was transferred to other servicers. Revenue earned from this customer in 2013 and 2012 was $6.2 million and $14.7 million, respectively. Excluding revenue from this customer, software services revenue increased in 2013 compared to 2012 due to an increase in the number of borrowers from other remote hosted customers.
Other	3,203	1,684	1,178	Increase due to additional contact center outsourcing activities.
Loan and guaranty servicing revenue	$240,414	243,428	209,748	

TUITION PAYMENT PROCESSING AND CAMPUS COMMERCE OPERATING SEGMENT – RESULTS OF OPERATIONS

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

The Company purchased RenWeb on June 3, 2014. The results of RenWeb's operations are reported in the Company's consolidated financial statements from the date of acquisition. RenWeb's revenue from the date of acquisition through December 31, 2014 was $8.8 million.

Summary and Comparison of Operating Results

	Year ended December 31,			
	2014	2013	2012	Additional information
Net interest income	$6	—	8	
Tuition payment processing, school information, and campus commerce revenue	98,156	80,682	74,410	In addition to the acquisition of RenWeb referred to above, the remaining increase was due to an increase in the number of managed tuition payment plans, campus commerce customer transaction volume, and new school customers.
Other income	1,268	—	—	
Total other income	99,424	80,682	74,410	
Salaries and benefits	48,453	37,575	34,314	In addition to the acquisition of RenWeb referred to above, the remaining increase was due to additional personnel to support the increase in payment plans and continued system maintenance and enhancements.
Depreciation and amortization	8,169	4,518	7,240	Amortization of intangible assets for 2014, 2013, and 2012 was $6.5 million, $3.3 million, and $6.3 million, respectively. Certain intangible assets were fully amortized at the end of 2012. As a result of the acquisition of RenWeb, the Company recorded $37.2 million of intangible assets that increased amortization expense in 2014.
Other expenses	13,006	9,147	10,439	Implementation of electronic communications and processes resulted in reductions of paper forms, postage, and freight which decreased

				expenses in 2013 compared to 2012. In addition, certain investments were made by the Company during 2012 in new products and services to meet customer needs and expand product and service offerings. The increase in expenses in 2014 compared to 2013 was the result of the acquisition of RenWeb referred to above and additional expenses incurred to support the increase in payment plans and continued system maintenance and enhancements.
Intersegment expenses, net	5,864	5,989	5,383	
Total operating expenses	75,492	57,229	57,376	
Income before income taxes and corporate overhead allocation	23,938	23,453	17,042	
Corporate overhead allocation	(3,010)	(1,957)	(1,968)	
Income before income taxes	20,928	21,496	15,074	
Income tax expense	(7,952)	(8,168)	(5,728)	
Net income	$12,976	13,328	9,346	
Before tax operating margin	21.0 %	26.6 %	20.3 %	Excluding the amortization of intangibles, before tax operating margin was 27.6%, 30.7%, and 28.7% for 2014, 2013, and 2012, respectively. The decrease in margin in 2014 compared to 2013 was primarily due to a change in the mix of products and services provided as a result of the acquisition of RenWeb referred to above.

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ASSET GENERATION AND MANAGEMENT OPERATING SEGMENT – RESULTS OF OPERATIONS

Student Loan Portfolio

As of December 31, 2014, the Company had a $28.0 billion student loan portfolio that will amortize over the next 25 years. For a summary of the Company's student loan portfolio as of December 31, 2014 and 2013, see note 3 of the notes to consolidated financial statements included in this report.

Loan Activity

The following table sets forth the activity of loans:

	Year ended December 31,		
	2014	2013	2012
Beginning balance	$26,121,306	24,995,880	24,359,625
Loan acquisitions	6,099,249	4,058,997	3,885,138
Repayments, claims, capitalized interest, participations, and other	(2,745,341)	(2,375,806)	(1,807,144)
Consolidation loans lost to external parties	(990,960)	(514,108)	(1,331,163)
Loans sold	(260,346)	(43,657)	(110,576)
Ending balance	$28,223,908	26,121,306	24,995,880

Allowance for Loan Losses, Loan Repurchase Obligation, and Loan Delinquencies

The Company maintains an allowance appropriate to absorb losses, net of recoveries, inherent in the portfolio of student loans, which results in periodic expense provisions for loan losses. In addition, the Company’s servicing operations are obligated to repurchase certain private education loans sold in the event such loans become 60 or 90 days delinquent. Further, delinquencies have the potential to adversely impact the Company’s earnings through increased servicing and collection costs and account charge-offs.

For a summary of the activity in the allowance for loan losses and accrual related to the Company's loan repurchase obligation for 2014, 2013, and 2012, and a summary of the Company's federally insured student loan delinquency amounts as of December 31, 2014, 2013, and 2012, see note 3 of the notes to consolidated financial statements included in this report.

The Company's provision for loan losses and charge-offs of federally insured loans decreased in 2014 compared to 2013 and 2013 compared to 2012. The Company’s primary driver for loan growth has been acquiring student loan portfolios. The Company records loans acquired net of any credit exposure through a credit discount, separate from the allowance for loan losses. This credit discount is non-accretable to interest income. The Company continues to evaluate credit losses associated with purchased loans based on current information and changes in expectations to determine the need for any additional allowance for loan losses. The recent purchases of large loan portfolios have resulted in an increase in the non-accretable discount balance, but no additional allowance for loan losses associated with these recent loan portfolios has been necessary. In addition, as the Company’s overall student loan portfolio continues to season with the length of time that loans are in active repayment, credit performance continues to improve.

Student Loan Spread Analysis

The following table analyzes the student loan spread on the Company's portfolio of student loans, which represents the spread between the yield earned on student loan assets and the costs of the liabilities and derivative instruments used to fund the assets.

	Year ended December 31,					
	2014		2013		2012	
Variable student loan yield, gross	2.55	%	2.58	%	2.63	%
Consolidation rebate fees	(0.82	)	(0.77	)	(0.75	)
Discount accretion, net of premium and deferred origination costs amortization	0.05		0.03		—	
Variable student loan yield, net	1.78		1.84		1.88	
Student loan cost of funds - interest expense	(0.95	)	(0.91	)	(1.09	)
Student loan cost of funds - derivative settlements	0.01		0.01		0.03	
Variable student loan spread	0.84		0.94		0.82	
Fixed rate floor income, net of settlements on derivatives	0.64		0.60		0.62	
Core student loan spread	1.48	%	1.54	%	1.44	%
Average balance of student loans	$28,036,577		24,960,521		23,694,388	
Average balance of debt outstanding	28,116,989		24,954,546		23,932,304	

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

(a) The interest earned on a large portion of the Company's FFELP student loan assets is indexed to the one-month LIBOR rate. The Company funds the majority of its assets with three-month LIBOR indexed floating rate securities. The relationship between the indices in which the Company earns interest on its loans and funds such loans has a significant impact on student loan spread. This table (the right axis) shows the difference between the Company's liability base rate and the one-month LIBOR rate by quarter.

Variable student loan spread decreased in 2014 as compared to 2013 as a result of recent acquisitions of consolidation loans, which have lower margins but longer terms. Variable student loan spread increased in 2013 as compared to 2012 as a result of the tightening of the Asset/Liability Base Rate spread reflected in the previous table.

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

	Year ended December 31,		
	2014	2013	2012
Fixed rate floor income, gross	$204,250	179,453	164,615
Derivative settlements (a)	(24,380)	(31,022)	(19,270)
Fixed rate floor income, net	$179,870	148,431	145,345
Fixed rate floor income contribution to spread, net	0.64 %	0.60 %	0.62 %

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

The high levels of fixed rate floor income earned during 2014, 2013, and 2012 are due to historically low interest rates. Gross fixed rate floor income increased in 2014 due to recent purchases of loans earning fixed rate floor income. If interest rates remain low, the Company anticipates continuing to earn significant fixed rate floor income in future periods. See Item 7A, “Quantitative and Qualitative Disclosures about Market Risk - Interest Rate Risk,” which provides additional detail on the Company’s portfolio earning fixed rate floor income and the derivatives used by the Company to hedge these loans.

Summary and Comparison of Operating Results

	Year ended December 31,			
	2014	2013	2012	Additional information
Net interest income after provision for loan losses	$424,140	390,571	324,906	See table below for additional analysis.
Other income	21,532	15,223	18,219	The primary component of other income is borrower late fees, which were $14.8 million, $12.7 million, and $13.9 million in 2014, 2013, and 2012, respectively. In 2014, $4.2 million in income was recognized related to the modification of certain servicing agreements in which the Company's loan repurchase obligation was reduced. Also included in "other income" are net realized and unrealized gains /losses on investments, which were net income of $0.3 million, $0.2 million, and $1.7 million in 2014, 2013, and 2012, respectively.
(Loss) gain on sale of loans and debt repurchases, net	(1,357)	11,004	3,814	Gains were primarily from the Company repurchasing its own asset-backed debt securities. Due to improvements in the capital markets, the opportunities for the Company to repurchase debt at less than par are becoming more limited. In 2014, the Company recognized a loss from the sale of loans, which was partially offset by gains from debt repurchases.
Derivative market value and foreign currency adjustments, net	42,935	35,256	(51,809)	Includes (i) the unrealized gains and losses that are caused by changes in fair values of derivatives which do not qualify for "hedge treatment" under GAAP; and (ii) the foreign currency transaction gains or losses caused by the re-measurement of the Company's Euro-denominated bonds to U.S. dollars.
Derivative settlements, net	(20,818)	(27,966)	(11,792)	The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce the economic effect of interest rate volatility. Derivative settlements for each applicable period should be evaluated with the Company’s net interest income as reflected in the table below.

Total other income	42,292	33,517	(41,568)	
Salaries and benefits	2,316	2,292	2,252	
Other expenses	33,611	30,945	16,435	Increase due to higher third party servicing fees related to a significant amount of recent loan purchases being serviced at third parties.
Intersegment expenses, net	55,808	57,572	66,215	Amount includes fees paid to the LGS operating segment for the servicing of the Company's student loan portfolio. Such amounts have decreased as the AGM portfolio serviced by LGS has run off.
Total operating expenses	91,735	90,809	84,902	
Income before income taxes and corporate overhead allocation	374,697	333,279	198,436	
Corporate overhead allocation	(5,017)	(3,896)	(5,306)	
Income before income taxes	369,680	329,383	193,130	
Income tax expense	(140,477)	(125,165)	(73,387)	
Net income	$229,203	204,218	119,743	
Additional information:				
Net income	$229,203	204,218	119,743	The Company provides non-GAAP information that reflects specific items management believes to be important in the evaluation of its operating results. The Company believes the point-in-time estimates of asset and liability values related to its derivatives and Euro-denominated bonds that are subject to interest and currency rate fluctuations affect the period-to-period comparability of the results of operations. These items are excluded here for comparability purposes.
Derivative market value and foreign currency adjustments, net	(42,935)	(35,256)	51,809	
Tax effect	16,315	13,397	(19,687)	
Net income, excluding derivative market value and foreign currency adjustments	$202,583	182,359	151,865	

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

	Year ended December 31,			
	2014	2013	2012	Additional Information
Variable interest income, net of settlements on derivatives	$718,274	645,739	630,267	Increase due to an increase in the average student loan portfolio, partially offset by a decrease in the gross yield earned on student loans, net of settlements on derivatives.
Consolidation rebate fees	(230,956)	(192,061)	(178,211)	Increase due to an increase in the average consolidation loan balance.
Discount accretion, net of premium and deferred origination costs amortization	15,002	8,067	47	Increase due to the Company's purchases of loans at a net discount over the last several years.
Interest on bonds and notes payable	(267,506)	(226,265)	(260,082)	Increase in 2014 compared to 2013 was due to an increase in cost of funds and an increase in average debt outstanding. Decrease in 2013 compared to 2012 was due to a decrease in cost of funds, partially offset by an increase in average debt outstanding.
Variable student loan interest margin, net of settlements on derivatives	234,814	235,480	192,021	
Fixed rate floor income, net of settlements on derivatives	179,870	148,431	145,345	The high levels of fixed rate floor income earned were due to historically low interest rates. Fixed rate floor income has increased year over year due to recent purchases of loans earning fixed rate floor income.
Investment interest	374	461	955	
Intercompany interest	(2,236)	(3,267)	(3,707)	
Provision for loan losses - federally insured loans	(11,000)	(20,000)	(22,000)	
Recovery of loan losses - private education loans	1,500	1,500	500	
Net interest income after provision for loan losses (net of settlements on derivatives)	$403,322	362,605	313,114	

LIQUIDITY AND CAPITAL RESOURCES

The Company’s fee generating businesses are non-capital intensive and all produce positive operating cash flows. As such, a minimal amount of debt and equity capital is allocated to the fee-based segments and any liquidity or capital needs are satisfied using cash flow from operations. Therefore, this Liquidity and Capital Resources discussion is concentrated on the Company’s liquidity and capital needs to meet existing debt obligations in the Asset Generation and Management operating segment.

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

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

Sources of Liquidity Currently Available

As of December 31, 2014, the Company had cash and investments of $279.6 million. In addition, the Company has historically generated positive cash flow from operations. For the years ended December 31, 2014, 2013, and 2012, the Company's net cash provided by operating activities was $357.4 million, $387.2 million, and $299.3 million, respectively.

In addition, the Company has a $350.0 million unsecured line of credit that matures on June 30, 2019. As of December 31, 2014, nothing was outstanding on the unsecured line of credit and $350.0 million was available for future use.

As part of the Company's asset-backed securitizations, the Company has retained certain of the Class B subordinated note tranches. In addition, the Company has repurchased certain of its own asset-backed securities (bonds and notes payable) in the secondary market. For accounting purposes, these notes are effectively retired and are not included on the Company's consolidated balance sheet. However, these securities are legally outstanding at the trust level and the Company could sell these notes to third parties or redeem the notes at par as cash is generated by the trust estate. Upon a sale of these notes to third parties, the Company would obtain cash proceeds equal to the market value of the notes on the date of such sale. As of December 31, 2014, the Company holds $124.8 million (par value) of its own asset-backed securities that are not included in the consolidated financial statements.

The Company intends to use its strong liquidity position to capitalize on market opportunities, including FFELP and private education loan acquisitions; strategic acquisitions and investments in loan financing, loan servicing, and payment processing; and capital management initiatives, including stock repurchases, debt repurchases, and dividend distributions.

Cash Flows

During the year ended December 31, 2014, the Company generated $357.4 million from operating activities, compared to $387.2 million for the same period in 2013. The decrease in cash provided by operating activities reflects changes in the adjustments to net income for non-cash foreign currency transaction adjustments related to the Company's Euro denominated bonds payable, decreases in payments received from the termination of derivative instruments, and a decrease in other liabilities. These factors were partially offset by changes in the non-cash fair value adjustment for derivatives, non-cash depreciation and amortization, and an increase in deferred income tax expense.

The primary items included in the statement of cash flows for investing activities are the purchase and repayment of student loans. The primary items included in financing activities are the proceeds from the issuance of and payments on bonds and notes payable used to fund student loans. Cash used in investing activities and financing activities for the year ended December 31, 2014 was $109.5 million and $180.7 million, respectively. Cash provided by investing activities and cash used in financing activities for the year ended December 31, 2013 was $496.6 million and $886.5 million, respectively. Investing and financing activities are further addressed in the discussion that follows.

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

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

As of December 31, 2014

	Carrying amount	Final maturity
Asset Generation and Management:		
Bonds and notes issued in asset-backed securitizations	$27,025,100	5/25/18 - 8/26/52
FFELP warehouse facilities	1,241,665	1/17/16 - 6/11/17
Other borrowings	81,969	11/11/15 - 12/31/18
	$28,348,734	

Bonds and Notes Issued in Asset-backed Securitizations

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

As of December 31, 2014, based on cash flow models developed to reflect management’s current estimate of, among other factors, prepayments, defaults, deferment, forbearance, and interest rates, the Company currently expects future undiscounted cash flows from its portfolio to be approximately $2.29 billion as detailed below. The $2.29 billion includes approximately $596.3 million (as of December 31, 2014) of overcollateralization included in the asset-backed securitizations. These excess net asset positions are reflected variously in the following balances on the consolidated balance sheet: "student loans receivable," "restricted cash and investments," and "accrued interest receivable."

The forecasted cash flow presented below includes all loans funded in asset-backed securitizations as of December 31, 2014. As of December 31, 2014, the Company had $26.9 billion of loans included in asset-backed securitizations, which represented 95.4 percent of its total FFELP student loan portfolio. The forecasted cash flow does not include cash flows that the Company expects to receive related to loans funded in its warehouse facilities as of December 31, 2014 or loans acquired subsequent to December 31, 2014.

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

Prepayments: The primary variable in establishing a life of loan estimate is the level and timing of prepayments. Prepayment rates equal the amount of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect estimated prepayment rates, including the level of consolidation activity, borrower default rates, and utilization of FFEL Program debt management options such as income-based repayment, deferments, and forbearance. Should any of these factors change, management may revise its assumptions, which in turn would impact the projected future cash flow. The Company’s cash flow forecast above assumes prepayment rates that are generally consistent with those utilized in the Company’s recent asset-backed securitization transactions. If management used a prepayment rate assumption two times greater than what was used to forecast the cash flow, the cash flow forecast would be reduced by approximately $250 million to $310 million.

Interest rates: The Company funds the majority of its student loans with three-month LIBOR indexed floating rate securities. Meanwhile, the interest earned on the Company's student loan assets is indexed primarily to a one-month LIBOR rate. The different interest rate characteristics of the Company's loan assets and liabilities funding these assets result in basis risk. The Company's cash flow forecast assumes three-month LIBOR will exceed one-month LIBOR by 12 basis points for the life of the portfolio, which approximates the historical relationship between these indices. If the forecast is computed assuming a spread of 24 basis points between three-month and one-month LIBOR for the life of the portfolio, the cash flow forecast would be reduced by approximately $120 million to $160 million.

The Company uses the current forward interest rate yield curve to forecast cash flows. A change in the forward interest rate curve would impact the future cash flows generated from the portfolio. An increase in future interest rates will reduce the amount of fixed rate floor income the Company is currently receiving. The Company attempts to mitigate the impact of a rise in short-term rates by hedging interest rate risks. As of December 31, 2014, the net fair value of the Company's interest rate derivatives used to hedge loans earning fixed rate floor income was a net asset of $0.1 million. See Item 7A, "Quantitative and Qualitative Disclosures about Market Risk — Interest Rate Risk."

FFELP Warehouse Facilities

The Company funds a portion of its FFELP loan acquisitions using its FFELP warehouse facilities. Student loan warehousing allows the Company to buy and manage student loans prior to transferring them into more permanent financing arrangements. As of December 31, 2014, the Company had three FFELP warehouse facilities with an aggregate maximum financing amount available of $1.75 billion, of which $1.24 billion was outstanding and $0.51 billion was available for additional funding. Of the three facilities, one facility provides for formula-based advance rates, depending on FFELP loan type, up to a maximum of the principal and interest of loans financed. The advance rates for collateral may increase or decrease based on market conditions. The other two FFELP warehouse facilities have static advance rates that require initial equity for loan funding, but do not require increased equity based on market movements. As of December 31, 2014, the Company had $73.4 million advanced as equity support on these facilities. For further discussion of the Company's FFELP warehouse facilities outstanding at December 31, 2014, see note 4 of the notes to consolidated financial statements included in this report.

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

Other Uses of Liquidity

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

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

In addition, as discussed under "Overview - Recent Developments - Private education loans," the Company has entered into agreements in which it is committed to purchase private education loans. The Company intends to use operating cash and its unsecured line of credit to initially fund these private education loans. The Company is currently forming a private education loan warehouse facility to be used to pool loans before financing them under more permanent securitization financing arrangements. If the Company is not successful in establishing specific financing facilities for private education loans, the Company's liquidity could be adversely affected and the Company's opportunities to purchase additional such loans could be limited.

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. As of December 31, 2014, $543.0 million of loans were subject to outstanding participation interests held by Union Bank, as trustee, under this agreement. The agreement automatically renews annually and is terminable by either party upon five business days notice. This agreement provides beneficiaries of Union Bank's grantor trusts with access to investments in interests in student loans, while providing liquidity to the Company. The Company can participate loans to Union Bank to the extent of availability under the grantor trusts, up to $750 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 sheets.

Asset-backed Securities Transactions

During 2014, the Company completed six asset-backed securitizations totaling $3.2 billion. Depending on market conditions, the Company anticipates continuing to access the asset-backed securitization market. Asset-backed securitization transactions would be used to refinance student loans included in the FFELP warehouse facilities and/or existing asset-backed securitizations.

Liquidity Impact Related to Hedging Activities

The Company utilizes derivative instruments to manage interest rate sensitivity. By using derivative instruments, the Company is exposed to market risk which could impact its liquidity. Based on the derivative portfolio outstanding as of December 31, 2014, the Company does not currently anticipate any movement in interest rates having a material impact on its capital or liquidity profile, nor does the Company expect that any movement in interest rates would have a material impact on its ability to meet potential collateral deposits with its counterparties. However, if interest rates move materially and negatively impact the fair value of the Company's derivative portfolio or if the Company enters into additional derivatives for which the fair value becomes negative, the Company could be required to deposit additional collateral with its derivative instrument counterparties and/or a third-party clearinghouse. The collateral deposits, if significant, could negatively impact the Company's liquidity and capital resources. As of December 31, 2014, the fair value of the Company's derivatives which had a negative fair value (a liability in the Company's balance sheet), was $32.8 million. As of December 31, 2014, the Company had no collateral deposited with counterparties or a clearinghouse related to these derivatives.

Other Debt Facilities

As previously discussed, the Company has a $350.0 million unsecured line of credit with a maturity date of June 30, 2019. As of December 31, 2014, the $350.0 million unsecured line of credit had no amounts outstanding and $350.0 million was available for future use. Upon the maturity date in 2019 there can be no assurance that the Company will be able to maintain this line of credit, increase the amount outstanding under the line, or find alternative funding if necessary.

The Company has issued Junior Subordinated Hybrid Securities (the "Hybrid Securities") that have a final maturity of September 15, 2061. The Hybrid Securities are unsecured obligations of the Company. As of December 31, 2014, $71.7 million of Hybrid Securities were outstanding.

For further discussion of these unsecured debt obligations of the Company, see note 4 of the notes to consolidated financial statements included in this report.

Debt Repurchases

Due to the Company's positive liquidity position and opportunities in the capital markets, the Company has repurchased its own debt over the last several years, and may continue to do so in the future. Gains recorded by the Company from the purchase of debt are included in "gain on the sale of loans and debt repurchases, net" on the Company's consolidated statements of income. Due to improvements in the capital markets, the opportunities for the Company to repurchase debt at less than par are becoming more limited. A summary of debt repurchases follows:

	Year ended December 31, 2014			Year ended December 31, 2013			Year ended December 31, 2012		
	Par value	Purchase price	Gain	Par value	Purchase price	Gain	Par value	Purchase price	Gain
Unsecured debt - Hybrid Securities	$24,769	19,761	5,008	2,775	2,080	695	1,465	1,140	325
Asset-backed securities	29,243	27,636	1,607	87,696	76,725	10,971	134,667	130,969	3,698
	$54,012	47,397	6,615	90,471	78,805	11,666	136,132	132,109	4,023

Stock Repurchases

The Board of Directors has authorized a stock repurchase program to repurchase up to a total of five million shares of the Company's Class A common stock during the three-year period ending May 24, 2015. Shares may be repurchased from time to time depending on various factors, including share prices and other potential uses of liquidity. Shares repurchased by the Company during 2014, 2013, and 2012 are shown in the table below.

	Total shares repurchased	Purchase price (in thousands)	Average price of shares repurchased (per share)
Year ended December 31, 2014	381,689	$15,713	$41.17
Year ended December 31, 2013	393,259	13,136	33.40
Year ended December 31, 2012	806,023	22,814	28.30

As of December 31, 2014, 3,520,966 shares remain authorized for purchase under the Company's repurchase program.

Dividends

Dividends of $0.10 per share on the Company’s Class A and Class B common stock were paid on March 14, 2014, June 13, 2014, September 15, 2014, and December 15, 2014, respectively.

The Company's Board of Directors declared a first quarter 2015 cash dividend on the Company's Class A and Class B common stock of $0.10 per share. The dividend will be paid on March 13, 2015, to shareholders of record at the close of business on February 27, 2015.

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

The Company’s contractual obligations were as follows:

	As of December 31, 2014				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Bonds and notes payable (a)	$28,420,422	4,393	1,316,665	476,268	26,623,096
Operating lease obligations	23,047	4,468	7,233	5,073	6,273
Total	$28,443,469	8,861	1,323,898	481,341	26,629,369

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

As of December 31, 2014, the Company had a reserve of $13.9 million for uncertain income tax positions (including the federal benefit received from state positions). This obligation is not included in the above table as the timing and resolution of the income tax positions cannot be reasonably estimated at this time.

The Company has sold various portfolios of private education loans to third-parties. Per the terms of the servicing agreements, the Company's servicing operations are obligated to repurchase loans subject to the sale agreements in the event such loans become 60 or 90 days delinquent. As of December 31, 2014, the balance of loans subject to these repurchase obligations was $155.3

million. As of December 31, 2014, the Company has $11.8 million accrued related to this repurchase obligation which is included in “other liabilities” in the Company’s consolidated balance sheet. This obligation is not included in the above table.

The Company has commitments with certain entities which obligate the Company to purchase private education loans originated under certain criteria. See "Overview - Recent Developments - Private education loans" above. These obligations are not included in the above table.

CRITICAL ACCOUNTING POLICIES

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

On an on-going basis, management evaluates its estimates and judgments, particularly as they relate to accounting policies that management believes are most "critical" — that is, they are most important to the portrayal of the Company’s financial condition and results of operations and they require management’s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management has identified the following critical accounting policies that are discussed in more detail below: allowance for loan losses, revenue recognition, consolidation of Variable Interest Entities ("VIEs"), income taxes, and accounting for derivatives.

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 appropriateness of the allowance for loan losses on its federally insured loan portfolio separately from its private education loan portfolio.

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

In determining the appropriateness of the allowance for loan losses on the private education loans, the Company considers several factors including: loans in repayment versus those in a nonpaying status, delinquency status, type of program, trends in defaults in the portfolio based on Company and industry data, past experience, current economic conditions, and other relevant factors. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company’s future provision for loan losses. The Company places a private education loan on nonaccrual status when the collection of principal and interest is 30 days past due and charges off the loan and accrued interest when the collection of principal and interest is 120 days past due.

The allowance for federally insured and private education loans and the repurchase obligation related to loans sold are maintained at a level management believes is appropriate to provide for estimated probable credit losses inherent in the loan portfolios. This evaluation is inherently subjective because it requires estimates that may be susceptible to significant changes.

Revenue Recognition

The Company recognizes student loan income as earned, net of amortization/accretion of loan premiums and discounts 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 principal reductions for timely payments ("borrower benefits") and other yield adjustments. The estimate of the borrower benefits discount is dependent on the estimate of the number of borrowers who will eventually qualify for these benefits. For competitive and liquidity purposes, the Company frequently changed the borrower benefit programs in both amount and qualification factors. These programmatic changes must be reflected in the estimate of the borrower benefit discount. Loan premiums/discounts, deferred origination costs, and borrower benefits are included in the carrying value of the student loan on the consolidated balance sheet and are amortized over the estimated life of the loan. The most sensitive estimate related to the amortization/accretion of loan premiums/discounts, deferred origination costs, and borrower benefits is the estimate of the constant prepayment rate ("CPR"). CPR is a variable in the life of loan estimate that measures the rate at which loans in a portfolio pay before their stated maturity. The CPR is directly correlated to the average life of the portfolio. CPR equals the percentage of loans that prepay annually as a percentage of the beginning of period balance, net of scheduled principal payments. A number of factors can affect the CPR estimate, including the level of loan consolidation activity, borrower default rates, and utilization of FFEL Program debt management options such as income-based repayment, deferments, and forbearance. Should any of these factors change, the estimates made by management would also change, which in turn would impact the amount of loan premium/discount and deferred origination cost amortization recognized by the Company in a particular period.

The Company also earns revenue from its service and product offerings in its fee-based operating segments, including Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, and Enrollment Services revenue. The revenue recognition policy for these services and products can be found in note 2 of the notes to consolidated financial statements included in this report.

Fees associated with the majority of the services included in the fee-based operating segments are recognized in the period services are rendered and earned under service arrangements with clients where service fees are fixed or determinable and collectability is reasonably assured. The Company's service fees are determined based on written price quotations or service agreements having stipulated terms and conditions that do not require management to make any significant judgments or assumptions regarding any potential uncertainties.

The Company assesses collectability of revenues and its allowance for doubtful accounts based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. An allowance for doubtful accounts is established to record accounts receivable at estimated net realizable value. If the Company determines that collection of revenues is not reasonably assured at or prior to delivery of the Company's services, revenue is recognized upon the receipt of cash.

Consolidation of VIEs

The Company's education lending subsidiaries, or VIEs, 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 Company has determined it is the primary beneficiary of its VIEs. The primary beneficiary is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE. There can be considerable judgment required in determining the primary beneficiary of the VIEs with which the Company is associated, and there are no "bright line" tests. Rather, the assessment of who has the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and who has the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE can be very qualitative and judgmental in nature. The Company is generally the administrator and master servicer of the securitized assets held in its education lending subsidiaries and owns the residual interest of the securitization trusts. As a result, for accounting purposes, the transfers of student loans to the eligible lender trust do not qualify as sales. Accordingly, all the financial activities and related assets and liabilities, including debt, of the securitizations are reflected in the Company's consolidated financial statements and are summarized as supplemental information on the balance sheet.

Income Taxes

The Company is subject to the income tax laws of the U.S., Canada, Australia, and the states and municipalities in which the Company operates. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. In establishing a provision for income tax expense, the Company must make judgments and interpretations about the application of these inherently complex tax laws. The Company must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit. The Company reviews these balances quarterly and as new information becomes available, the balances are adjusted, as appropriate.

Derivative Accounting

The Company records derivative instruments at fair value on the 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 the majority 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.

RECENT ACCOUNTING PRONOUNCEMENTS ISSUED, BUT NOT YET EFFECTIVE

In May 2014, the Financial Accounting Standards Board issued accounting guidance regarding the recognition of revenue from contracts with customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance once it becomes effective on January 1, 2017. Early application is not permitted, and the standard allows the use of either the retrospective or cumulative effect transition method. The Company is evaluating the impact this standard will have on its ongoing financial reporting, and has not yet selected a method of transition.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
(All dollars are in thousands, except share amounts, unless otherwise noted)

Interest Rate Risk

The Company's primary market risk exposure arises from fluctuations in its borrowing and lending rates, the spread between which could impact the Company due to shifts in market interest rates.

The following table sets forth the Company's loan assets and debt instruments by rate characteristics:

	As of December 31, 2014			As of December 31, 2013		
	Dollars	Percent		Dollars	Percent	
Fixed-rate loan assets	$12,700,494	45.0	%	$11,090,583	42.5	%
Variable-rate loan assets	15,523,414	55.0		15,030,723	57.5	
Total	$28,223,908	100.0	%	$26,121,306	100.0	%
Fixed-rate debt instruments	$—	—	%	$—	—	%
Variable-rate debt instruments	28,420,422	100.0		26,213,345	100.0	
Total	$28,420,422	100.0	%	$26,213,345	100.0	%

Loans originated prior to April 1, 2006 generally earn interest at the higher of the borrower rate, which is fixed over a period of time, or a floating rate based on the SAP formula set by the Department. The SAP rate is based on an applicable index plus a fixed spread that depends on loan type, origination date, and repayment status. The Company generally finances its student loan portfolio with variable rate debt. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the SAP rate, the Company's student loans earn at a fixed rate while the interest on the variable rate debt typically continues to reflect the low and/or declining interest rates. In these interest rate environments, the Company may earn additional spread income that it refers to as floor income.

Depending on the type of loan and when it was originated, the borrower rate is either fixed to term or is reset to an annual rate each July 1. As a result, for loans where the borrower rate is fixed to term, the Company may earn floor income for an extended period of time, which the Company refers to as fixed rate floor income, and for those loans where the borrower rate is reset annually on July 1, the Company may earn floor income to the next reset date, which the Company refers to as variable rate floor income. All FFELP loans first originated on or after April 1, 2006 effectively earn at the SAP rate, since lenders are required to rebate fixed rate floor income and variable rate floor income for those loans to the Department.

No variable-rate floor income was earned by the Company during the years ended December 31, 2014, 2013, and 2012. A summary of fixed rate floor income earned by the Company during these years follows.

	Year ended December 31,		
	2014	2013	2012
Fixed rate floor income, gross	$204,250	179,453	164,615
Derivative settlements (a)	(24,380)	(31,022)	(19,270)
Fixed rate floor income, net	$179,870	148,431	145,345

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

The high levels of fixed rate floor income earned during 2014, 2013, and 2012 are due to historically low interest rates. Gross fixed rate floor income increased during 2014 due to recent purchases of loans earning fixed rate floor income. If interest rates remain low, the Company anticipates continuing to earn significant fixed rate floor income in future periods.

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

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

The following table shows the Company's student loan assets that are earning fixed rate floor income as of December 31, 2014:

Fixed interest rate range	Borrower/lender weighted average yield	Estimated variable conversion rate (a)	Loan balance
< 3.0%	2.88%	0.24%	$1,848,518
3.0 - 3.49%	3.19%	0.55%	2,319,425
3.5 - 3.99%	3.65%	1.01%	2,276,397
4.0 - 4.49%	4.20%	1.56%	1,741,174
4.5 - 4.99%	4.72%	2.08%	1,078,574
5.0 - 5.49%	5.22%	2.58%	677,589
5.5 - 5.99%	5.67%	3.03%	393,750
6.0 - 6.49%	6.18%	3.54%	457,441
6.5 - 6.99%	6.71%	4.07%	434,295
7.0 - 7.49%	7.17%	4.53%	182,627
7.5 - 7.99%	7.71%	5.07%	312,589
8.0 - 8.99%	8.18%	5.54%	703,712
> 9.0%	9.04%	6.40%	274,403
			$12,700,494

(a) The estimated variable conversion rate is the estimated short-term interest rate at which loans would convert to a variable rate. As of December 31, 2014, the weighted average estimated variable conversion rate was 1.84% and the short-term interest rate was 16 basis points.

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

Maturity	Notional amount	Weighted average fixed rate paid by the Company (a)	
2015	$1,100,000	0.89	%
2016	750,000	0.85	
2017	1,250,000	0.86	
	$3,100,000	0.87	%

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

In addition, on August 20, 2014, the Company paid $9.1 million for an interest rate swaption to economically hedge loans earning fixed rate floor income. The interest rate swap option gives the Company the right, but not the obligation, to enter into a $250 million notional interest rate swap in which the Company would pay a fixed amount of 3.30% and receive discrete one-month LIBOR. If the interest rate swap option is exercised, the swap would become effective in 2019 and mature in 2024.

The Company is also exposed to interest rate risk in the form of basis risk and repricing risk because the interest rate characteristics of the Company's assets do not match the interest rate characteristics of the funding for those assets. The following table presents the Company's FFELP student loan assets and related funding for those assets arranged by underlying indices as of December 31, 2014:

Index	Frequency of variable resets	Assets	Debt outstanding that funded student loan assets
1 month LIBOR (a)	Daily	$27,273,203	—
3 month Treasury bill	Daily	923,227	—
3 month LIBOR (a) (b)	Quarterly	—	16,513,911
1 month LIBOR	Monthly	—	9,892,133
Auction-rate (c)	Varies	—	1,311,669
Asset-backed commercial paper (d)	Varies	—	549,052
Other (e)		152,304	81,969
		$28,348,734	28,348,734

(a) The Company has certain basis swaps outstanding in which the Company receives three-month LIBOR and pays one-month LIBOR plus or minus a spread as defined in the agreements (the "1:3 Basis Swaps"). The Company entered into these derivative instruments to better match the interest rate characteristics on its student loan assets and the debt funding such assets. The following table summarizes these derivatives as of December 31, 2014:

Maturity		Notional amount	
2021		$250,000	
2022		1,900,000	
2023		3,650,000	
2024		250,000	
2026		800,000	
2028		100,000	
2036		700,000	
2039	(1)	150,000	
		$7,800,000	(2)

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

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

(b) The Company has Euro-denominated notes that reprice on the EURIBOR index. The Company has entered into a cross-currency interest rate swap that converts the EURIBOR index to three-month LIBOR. As a result, these notes are reflected in the three-month LIBOR category in the above table. See "Foreign Currency Exchange Risk" below.

(c) The interest rates on certain of the Company's asset-backed securities are set and periodically reset via a "dutch auction" ("Auction Rate Securities"). As of December 31, 2014, the Company was sponsor for $1.3 billion of Auction Rate Securities.

Since February 2008, problems in the auction rate securities market as a whole have led to failures of the auctions pursuant to which the Company's Auction Rate Securities' interest rates are set. As a result, the Auction Rate Securities generally pay interest to the holder at a maximum rate as defined by the indenture. While these rates will vary, they will generally be based on a spread to LIBOR or Treasury Securities, or the Net Loan Rate as defined in the financing documents.

(d)

The interest rates on certain of the Company's warehouse facilities are indexed to asset-backed commercial paper rates.

(e) Assets include restricted cash and investments and other assets. Debt outstanding includes other debt obligations secured by student loan assets and related collateral.

Sensitivity Analysis

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

	Interest rates				Asset and funding index mismatches			
	Change from increase of 100 basis points		Change from increase of 300 basis points		Increase of 10 basis points		Increase of 30 basis points	
	Dollar	Percent	Dollar	Percent	Dollar	Percent	Dollar	Percent
	Year ended December 31, 2014							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$(81,669)	(17.4)%	$(144,648)	(30.8)%	$(17,231)	(3.6)%	$(51,697)	(11.0)%
Impact of derivative settlements	40,267	8.6	120,801	25.7	7,649	1.6	22,951	4.9
Increase (decrease) in net income before taxes	$(41,402)	(8.8)%	$(23,847)	(5.1)%	$(9,582)	(2.0)%	$(28,746)	(6.1)%
Increase (decrease) in basic and diluted earnings per share	$(0.55)		$(0.32)		$(0.12)		$(0.38)	
	Year ended December 31, 2013							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$(70,599)	(15.1)%	$(124,864)	(26.8)%	$(16,831)	(3.6)%	$(50,493)	(10.8)%
Impact of derivative settlements	60,123	12.9	180,370	38.7	6,855	1.5	20,565	4.4
Increase (decrease) in net income before taxes	$(10,476)	(2.2)%	$55,506	11.9%	$(9,976)	(2.1)%	$(29,928)	(6.4)%
Increase (decrease) in basic and diluted earnings per share	$(0.14)		$0.74		$(0.13)		$(0.40)	
	Year ended December 31, 2012							
Effect on earnings:								
Decrease in pre-tax net income before impact of derivative settlements	$(66,283)	(24.1)%	$(117,342)	(42.7)%	$(23,935)	(8.7)%	$(71,805)	(26.2)%
Impact of derivative settlements	47,263	17.2	141,789	51.6	1,717	0.6	5,152	1.9
Increase (decrease) in net income before taxes	$(19,020)	(6.9)%	$24,447	8.9%	$(22,218)	(8.1)%	$(66,653)	(24.3)%
Increase (decrease) in basic and diluted earnings per share	$(0.25)		$0.32		$(0.29)		$(0.87)	

Foreign Currency Exchange Risk

The Company has issued €352.7 million of student loan asset-backed Euro Notes (the "Euro Notes") with an interest rate based on a spread to the EURIBOR index. As a result, the Company is exposed to market risk related to fluctuations in foreign currency exchange rates between the U.S. dollar and Euro. The Company has entered into a cross-currency interest rate swap in connection with the issuance of the Euro Notes. See note 5 of the notes to consolidated financial statements included in this report for additional information, including a summary of the terms of the cross-currency interest rate swap associated with the Euro Notes and the related financial statement impact.

Financial Statement Impact – Derivatives and Foreign Currency Transaction Adjustments

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under supervision and with the participation of certain members of the Company’s management, including the chief executive and chief financial officers, the Company completed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in SEC Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the Company’s principal executive and principal financial officers concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed in reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to the Company's management, including the chief executive and chief financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in the Company’s internal control over financial reporting during the Company’s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) for the Company. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to ensure that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 based on the criteria for effective internal control described in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2014, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report included herein, which expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2014.

Inherent Limitations on Effectiveness of Internal Controls

The Company's management, including the chief executive and chief financial officers, understands that the disclosure controls and procedures and internal control over financial reporting are subject to certain limitations, including the exercise of judgment in designing, implementing, and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. The design of a control system must reflect the fact that there are resource constraints, and the benefits of a control system must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

As a result, there can be no assurance that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors or fraud or ensure that all material information will be made known to management in a timely fashion. By their nature, the Company's or any system of disclosure controls and procedures or internal control over financial reporting, no matter how well designed and operated, can provide only reasonable assurance regarding management's control objectives.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Nelnet, Inc.:

We have audited Nelnet, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Nelnet, Inc.'s (the Company) management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Nelnet, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Nelnet, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 26, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Lincoln, Nebraska
February 26, 2015

ITEM 9B. OTHER INFORMATION

During the fourth quarter of 2014, no information was required to be disclosed in a report on Form 8-K, but not reported.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information as to the directors, executive officers, corporate governance, and Section 16(a) beneficial ownership reporting compliance of the Company set forth under the captions “PROPOSAL 1 - ELECTION OF DIRECTORS - Nominees,” “EXECUTIVE OFFICERS,” “CORPORATE GOVERNANCE,” and “SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS - Section 16(a) Beneficial Ownership Reporting Compliance” in the definitive Proxy Statement to be filed on Schedule 14A with the SEC, no later than 120 days after the end of the Company's fiscal year, relating to the Company's Annual Meeting of Shareholders scheduled to be held on May 14, 2015 (the “Proxy Statement”), is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

The following table summarizes information about compensation plans under which equity securities are authorized for issuance.

Equity Compensation Plan Information