

Japan Student Services Organization (Independent Administrative Institution)

1. Summary of operations implemented using FILP funds

For the purpose of fostering young people of high caliber who will become future leaders of society, and for the purpose of contributing the maintenance of the principle of equal opportunity in education, Japan Student Services Organization (JASSO) provides interest-bearing educational loans for school fees to promising students who have difficulty in continuing their studies for economic reasons.

Note: Excepting operations implemented using FILP funds, JASSO provides non-interest bearing loans for school fees to especially superior students who have serious difficulty in continuing their studies for economic reasons. Also, it gives assistance to foreign students and others.

2. Amount of lending under FY 2004 FILP

(Unit : billion yen)

FY 2004 FILP	Estimated outstanding amount of FILP lending at end of FY 2003
306.7	1,244.6

3. Outcome and social and economic benefits of operations

1) Interest-bearing loans

(i) Interest-bearing loans (FY 2002)
407,893 persons ¥301.0 billion

(ii) Interest-bearing loans (FY 1984~2002)
978,752 persons ¥1,484.0 billion

(Note): The number of borrowers refers to the aggregate number of new borrowers in each fiscal year.

(iii) Outstanding balance of loans (at the end of FY 2002)
798,238 persons ¥1,098.2 billion

(Note): The number of borrowers includes the borrowers who are repaying loans and the number of students.

(iv) Projected lending (FY 2004)
526,785 persons ¥431.6 billion

2) Under the interest-bearing loan operations, loans for school fees are provided to students at universities, junior colleges, graduate schools, technical colleges (4th and 5th grades), and special training colleges (professional courses) on the assumption that the loans will be repaid after they graduate from these institutions.

Since 1999, the interest-bearing loan project has been drastically expanded to meet the needs of students through a significant increase in the number of borrowers, the introduction of an option system where students can select monthly loan amounts, the relaxation of lending terms, and other changes.

Moreover, scholarship systems have been newly set up in FY2004 to answer the establishment of law schools and for students studying abroad in order to meet the diversifying needs of the students.

— An increase in the number of borrowers
(FY 1999) (FY 2004 plan)
208,000 persons → 527,000 persons
(2.5 times)

3) The interest-bearing loan project helps many students to obtain proper learning environment so that they may become self-supporting and study without worry, thus contributing to the development of creative and promising human resources.

4. Estimated policy (subsidy) cost analysis of the project

Policy (subsidy) cost

(Unit: billion yen)

Category	FY2003	FY2004	Increase/Decrease
1. Subsidies from the Government	87.3	142.3	+ 55.0
2. Money transfer to the Government	-	-	-
Subtotal (1+2)	87.3	142.3	+ 55.0
3. Opportunity cost of capital investment from the Government	- 1.7	- 2.0	- 0.3
Subtotal (1+2+3)	85.6	140.3	+ 54.7
4. Decrease in loss	- 2.3	- 2.5	- 0.2
Total (1+2+3+4=policy cost(A))	83.4	137.9	+ 54.5
Analysis period (years)	26	26	-

Breakdown of policy cost by the time of the provision of funds

[Upper figure: Discounted present value
Lower figure: Nominal value]

Category	FY2003	FY2004	Increase/Decrease
(A) Policy cost (previously cited)	83.4	137.9	+ 54.5
	85.8	143.5	+ 57.7
1) Opportunity cost such as capital investment made before the beginning of the analysis period	1.4	1.5	+ 0.1
	-	-	-
2) Policy cost expected to newly accrue during the analysis period	82.0	136.4	+ 54.4
	85.8	143.5	+ 57.7
Subsidies from the Government	87.3	142.3	+ 55.0
	92.9	151.9	+ 59.0
Money transfer to the Government	-	-	-
	-	-	-
Policy cost in connection with increase/decrease in surplus	- 5.3	- 5.9	- 0.6
	- 7.1	- 8.4	- 1.3
Opportunity cost such as capital investment	-	-	-
	-	-	-

Year-to-Year comparison analysis

(Unit: billion yen)

Category	FY2003	FY2004	Increase/Decrease
(A) Policy cost (previously cited)	83.4	137.9	+ 54.5
(A') Policy cost obtained by re-calculating (A) using the same assumed interest rate as in the FY2003 analysis	83.4	108.5	+ 25.1
(B) Policy cost of (A') generated in FY2004 or later	68.9	108.5	+ 39.6

Policy cost in FY2004 is ¥137.9 billion. The analysis shows an increase of ¥39.6 billion in real policy cost over FY2003 when the effect of change in the assumed interest rate for FY2003 and FY2004 is eliminated and the policy costs that accrue in FY2004 and thereafter are compared. This increase in real policy cost is considered to be attributable to the following factors:

- Increase in cost for grants-in-aid for paying interest by new loans provided in FY2004 (approx. +¥29.5 billion)
- Increase in bad loans charged off due to enlarged size of loans (approx. +¥4.0 billion)
- Increase in compensation for repayment exemption due to enlarged size of loans (approx. +¥1.5 billion)
- Increase in administrative expenses due to enlarged size of loans (approx. +¥4.0 billion)

Breakdown of policy cost by causative factor

(Unit : billion yen)

(A) Policy cost in FY2004 (previously cited)	137.9
1) Prepayments	- 46.7
2) Defaults	9.8
3) Other (spread, etc.)	174.8

The case if assumption is changed

(Unit : billion yen)

Changed assumption and extent of change	Increase / decrease in policy cost
Interest rates on money loaned and funds raised +1%	223.6 (+ 85.7)

(Reference)

Budgeted amount of subsidies and capital investment in FY 2004
Subsidies: ¥15.3 billion
Capital investment: —

5. Outline of estimation and project prospect in the analysis

- 1) Interest-bearing loans provided under the scholarship programs by Japan Student Services Organization are included in calculation.
- 2) Interest-bearing loans were calculated assuming that loans amounting to ¥431.6 billion in the FY2004 budget and loans amounting to ¥590.2 billion in keeping with school year promotion in FY2005 to FY2009 will be provided in addition to the balance of interest-bearing loans amounting to ¥1,367.6 billion already provided (estimated at the end of FY2003).
- 3) The analysis period continues for a period of 26 years including the initial period in which loans are provided as described in the above item (2) (the longest period is 6 years for the students studying in medical departments) in addition to the loans already provided and the ensuing period (the longest period is 20 years) in which these loans are recovered in full.
- 4) Loans interest rates will not exceed 3% and no interest accrues when the students are in school.
- 5) In regard to general and administrative expenses, expenses related to interest-bearing loans are divided into expenditures related to newly provided loans and those related to loan management. The expenditures related to newly provided loans are calculated based on the amount of interest-bearing loans and those related to loan management are calculated based on the ratio of the balance of interest-bearing loans.
- 6) Advanced redemption is calculated based on the average actual advanced redemption rate in FY2002.
- 7) In regard to bad loans charge off, the total amount of installment amount that are in arrears as of the end of each estimated year is assumed to be ¥13.9 billion. This amount will be charged off in FY2004 and the remaining years in the analysis period and the bad loans charge off rate will peak at 1.1462% in FY2022.

(Unit : %, billion yen)

FY	Results				Estimated 2003	Planned 2004	Assumptions for calculation 2005 and on
	1999	2000	2001	2002			
Advanced redemption rate	4.907	4.776	5.05	4.805	4.805	4.805	2005 and on: 4.805
Bad loans charge off rate	0.0005	0.0004	0.0017	0.0023	0.0012	0.0004	2005-2029 average rate: 0.3206

- 8) The balance of risk management loans at the end of FY2002 is ¥35.7 billion. The amount of the reserve for loan losses when accounted for in conformity with the private-sector accounting standards is ¥19.7 billion (at the end of FY2002) (reserve for loan losses / loans = 1.795%).

6. Reasons for granting of subsidies, mechanism and underlying laws**(Reason)**

In conducting scholarship programs, the Government, for the purpose of achieving its goal, provides financial assistance for operating expenses and compensation for repayment exemption, as well as subsidies from the national treasury to reduce the burden on borrowers.

Also, in order to strengthen the financial structure in keeping with the significant expansion of interest-bearing loan operation in FY1999, the Government provided ¥3.7 billion of investment from General Account.

(Underlying laws and regulations)

- Subsidies and the Government's grants-in-aid are provided under the following law:

Article 23 of Japan Student Services Organization Law

"The Government can subsidize part of the funds required for the scholarship programs operated by Japan Student Services Organization as provided for in Item I, Paragraph 1, Article 13 of the Law within the limits of the budget."

- Grants for operating expenses are provided under the following law:

Article 46 of the Independent Administrative Institution Law

"The Government can grant subsidies to cover part or whole of the funds required for the operation of independent administrative institutions within the limits of the budget."

- The Government's investment in FY1999 was provided under the following law:

Paragraph 2, Article 4 of the Japan Scholarship Foundation Law

"The Government can provide the JSF with additional capital investment within the limits of the amount specified in the budget, if recognized as necessary."

7. Special remarks

- 1) The policy cost of Japan Student Services Organization (JASSO)'s interest-bearing loan project is incurred because JASSO provides long-term funds with low interest rates for school fees to superior students who have difficulty in continuing their studies for economic reasons. As a result, these students can be self-supported and study without worry, developing capable and creative human resources that will make significant contribution to society in the future.
- 2) Japan Student Services Organization was founded on April 1, 2004, after Japan Scholarship Foundation had been liquidated as a result of the reform of special public corporations and four non-profit organizations including Japan International Education Association and part of the student supporting activities of the Government and national universities had been consolidated.

Since it is not possible to pre-determine the amount of assets to be taken over by the newly established entity, analysis has been made based on the predecessor institution (Japan Scholarship Foundation).

- 3) Changes in policy cost to date are as indicated below. (Policy cost in and prior to FY2003 is the policy cost of Japan Scholarship Foundation.)

FY2000	FY2001	FY2002	FY2003	FY2004
¥108.2 billion	¥104.9 billion	¥118.7 billion	¥83.4 billion	¥137.9 billion

(Reference) Budget Estimate for FY2004

(Unit : million yen)

Item	Estimate	Item	Estimate
(Revenues)		(Expenses)	
Grants for operating expenses	23,006	Operating expenses	701,891
Subsidies from the national treasury	1,051	Loan redemption	43,440
Subsidies from the Government	11,477	Interest expenses	21,965
Loans from the Government	405,737	General and administrative expenses	1,351
Loans from General Account	99,037	Personnel expenses	5,405
Loans from FILP	306,700		
Japan Student Support bonds	76,000		
Loan recovery	231,144		
Operating income	12,205		
Other revenues	2,139		
Total	762,759	Total	774,053

Note: Totals may not agree because figures have been rounded off.

(Reference) Financial Statements**Balance Sheet**

(Unit : million yen)

Item	End of FY 2002 (Result)	End of FY 2003 (Estimated)	Item	End of FY 2002 (Result)	End of FY 2003 (Estimated)
(Assets)			(Liabilities and capital)		
Current assets	52,968	30,228	Current liabilities	4,282	4,540
Cash and deposits	52,680	29,940	Accounts payable	16	16
Accrued income	288	288	Advances received	471	471
Fixed assets	3,031,288	3,392,923	Accrued expenses	2,628	2,931
Loans receivable	3,022,476	3,383,482	Suspense receipts	92	92
First Category Scholarship	1,927,534	2,019,933	Other	1,076	1,030
Second Category Scholarship	1,098,237	1,367,639	Fixed liabilities	3,086,645	3,422,079
Allowance for doubtful debts	- 3,295	- 4,089	JSF bonds	66,000	127,000
Tangible fixed assets	655	624	Long-term loans payable	3,020,210	3,294,679
Buildings	325	309	Allowance for retirement benefits	3	0
Land	297	297	Grants as deferred income	431	400
Other	32	17	(Total Liabilities)	3,090,927	3,426,619
Investments and other assets	8,157	8,817	Capital		
Long-term deposits	6,995	7,789	Funds		
Long-term prepaid expenses	1,088	954	Government's equity	3,701	3,701
Leasehold deposits	74	74	Surplus	2,147	1,844
Deferred assets			Additional paid-in capital	298	298
Deferred loss for forgivable refund	12,519	9,013	Retained earnings	1,849	1,545
			Reserve	2,140	1,849
			Net loss	- 291	- 303
			(Total capital)	5,848	5,545
Total assets	3,096,775	3,432,163	Total liabilities and capital	3,096,775	3,432,163

Income Statement

(Unit : million yen)

Item	FY 2002 (Result)	FY 2003 (Estimated)	Item	FY 2002 (Result)	FY 2003 (Estimated)
(Expenses)			(Revenues)		
Ordinary expenses	47,571	47,554	Ordinary profits	47,280	47,251
Operating Expenses	20,521	20,380	Operating revenue	9,587	9,971
Interest Expenses	20,011	19,544	Interest on loans	9,475	9,859
Interest on bonds	248	612	Interest on funds	112	112
Bond issuance expenses	235	186	Grants income	19,169	20,849
Donations expenses for Scholarship	27	37	Government grants income	8,886	11,082
General and administrative expenses	9,227	11,479	Government subsidies income	10,284	9,767
Bad debts written-off	52	90	Donations income	27	37
Provision for doubtful debts	3,295	4,089	Forgiveness of loans income	14,370	11,398
Amortization of deferred loss for forgivable refund	14,477	11,517	Reversal of allowance for doubtful debts	2,578	3,295
Extraordinary losses			Reversal of grants as deferred income	50	31
Loss on disposal of fixed assets	0	0	Non-operating revenue	1,499	1,670
			Interest income	1	2
			Miscellaneous revenue	1,498	1,668
			Net loss	291	303
Total	47,572	47,554	Total	47,572	47,554

Note: Totals may not agree because figures have been rounded off.