

Japan Student Services Organization (Incorporated Administrative Agency)

<http://www.jasso.go.jp/>

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 to the maintenance of the principle of equal opportunity in education, Japan Student Services Organization (JASSO) provides non-interest-bearing loans (utilizing FILP) and interest-bearing educational loans for school fees to promising students who have difficulty in continuing their studies for economic reasons.

Note: In operations that are outside of FILP, JASSO provides non-interest-bearing loans and grants for school fees to especially superior students who have serious difficulty in continuing their studies for economic reasons under the Scholarship Programs for Japanese Students. Also, it implements the Support Programs for International Students and the Student Support Programs.

2. Amount of lending under FY2018 FILP

(Unit: billion yen)

FY2018 FILP	Estimated outstanding amount of FILP lending at the end of FY2017
707.5	6,149.8

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2017	FY2018	Fluctuation
1. Subsidies, etc. from the Government	145.4	129.3	-16.1
2. Payments to the Government	-	-	-
Subtotal (1+2)	145.4	129.3	-16.1
3. Opportunity cost for the Government	-0.1	0.8	+0.8
Subtotal (1+2+3)	145.4	130.1	-15.3
4. Fluctuation in retained losses	-	-	-
Total (1+2+3+4=policy cost(A))	145.4	130.1	-15.3
Analysis period (years)	26	26	-

(3) Year-to-Year comparison analysis (Unit: billion yen)

Category	FY2017	FY2018	Fluctuation
(A) Policy cost (previously cited)	145.4	130.1	-15.3
(A') Policy cost obtained by re-calculating (A) using the same assumed interest rate as in the FY2017 analysis	145.4	131.6	-13.7
(B) Policy cost of (A') generated in FY2018 or later	135.1	131.6	-3.5

Policy cost in FY2018 is 130.1 billion yen. The analysis shows a decrease of 3.5 billion yen in real policy cost over FY2017 when the effect of change in the assumed interest rate for FY2017 and FY2018 is eliminated and the policy cost that accrues in FY2018 and thereafter are compared. This decrease in real policy cost is considered to be attributable to the following factors:

- Increase in cost due mainly to payment for new loans in FY2018 (+7.0 billion yen)
- Decrease in cost due to improvement of the recovery rate (-1.2 billion yen)
- Decrease in cost due to advanced redemption rate rise (-1.5 billion yen)
- Others (decrease in cost due to increase in revenue) (-7.8 billion yen)

(2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2017	FY2018	Fluctuation
(A) Policy cost (previously cited)	145.4	130.1	-15.3
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	0.0	0.0	+0.0
2) Policy cost expected to be newly accrued during the analysis period	145.4	130.1	-15.3
Subsidies, etc. from the Government	145.4	129.3	-16.1
Payments to the Government	-	-	-
Policy cost accrued with a change in surplus funds	-0.1	0.7	+0.8
Opportunity cost for the Government	-	-	-

<Reference> Budgeted amounts of subsidies and capital investment in FY2018

Subsidies: 12.4 billion yen
Capital investment: - billion yen

(4) Breakdown of policy cost by causative factor (Unit: billion yen)

(A) Policy cost in FY2018 (previously cited)	130.1
1) Prepayments	-16.7
2) Loan losses	42.3
3) Others (including profit spread)	104.4

(5) Sensitivity analysis (cases where assumptions change) (Unit: billion yen)

Changed assumption and extent of change	Policy Cost (Fluctuation)
Interest rates on money loaned and funds raised +1%	155.0 (+25.0)
Fluctuation in opportunity cost	+2.9
10% rise in charge-off	135.0 (+5.0)
Fluctuation in opportunity cost	-
No grace period	129.0 (-1.1)
Fluctuation in opportunity cost	-

4. Outline of estimation and project prospect employed in the analysis

1) Non-interest-bearing loans (using FILP) and interest-bearing loans provided under the scholarship programs by Japan Student Services Organization (JASSO) are included in calculation.

2) Estimation was made for a case in which 693.7 billion yen in project cost decided on in FY2018 and loans for relevant grades are implemented in addition to the outstanding loan balance of 6,630.8 billion yen at the end of FY2017.

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) Interest rates on interest-bearing loans are capped at 3% and no interest accrues when recipient students are in school. No interest accrues on non-interest-bearing loans over full terms.

5) With regard to management expenses, expenses pertaining to administration of scholarship programs are extracted from the general management expenses of JASSO and classified into expenses for new loans and those for loan management. Expenses for new loans are calculated based on the amount of scholarship loans provided and those for loan management are calculated based on the ratio of the balance of scholarship loans.

6) Prepayments are calculated based on the prepayment ratio in the FY2018.

7) The loan charge-off is calculated based upon the GAAP for the Incorporated Administrative Agencies. As for the method for estimating the charge-off, future cash flow is first estimated, with the total amount of loans to borrowers that are bankrupt and in the process of revitalization and rehabilitation, etc. (the total installment amount that is in arrears for 10 years or more and the amount based on the charge-off ratio for FY2016) as of the end of each year assumed to be ¥42.7 billion. This amount will be charged off in FY2018 and the remaining years of the analysis period.

The risk management loan balance at the end of FY2016 stood at ¥426.1 billion. Loan loss provisions totaled ¥111.7 billion (at the end of FY2016), as calculated in accordance with the GAAP for incorporated administrative agencies. (Loan loss provisions / loans = 1.720%)

* Components in each column may not add up to the total because of rounding.

Prepayment and loan charge-off ratios for the non-interest-bearing loan program (using FILP)

(Unit: %)

	Planned	Assumptions for calculation
FY	2018	2019 and on
Prepayment ratio	1.639	2019 and on: 1.639%
Loan charge-off ratio	0.001	Cumulative total in and after 2019: 2.645%

FY2013-2016 amortization of uncollectible receivables under the interest-bearing loan program

(FY2013) (FY2014) (FY2015) (FY2016)
¥290 million ¥398 million ¥319 million ¥246 million

Prepayment and loan charge-off ratios for the interest-bearing loan program

(Unit: %)

	Result				Estimated	Planned	Assumptions for calculation
FY	2013	2014	2015	2016	2017	2018	2019 and on
Prepayment ratio	3.056	2.941	2.985	3.007	2.941	2.941	2019 and on: 2.941%
Loan charge-off ratio	0.006	0.007	0.005	0.004	0.005	0.004	Cumulative total in and after 2019: 3.405%

5. Reasons for granting of subsidies, mechanism and underlying laws

(Reasons)

In order to accomplish the purpose of scholarship programs, the Government, for the purpose of achieving its goals, provides financial assistance for administrative expenses, compensation for repayment exemption, and compensation for bad loan charge offs, as well as subsidies from the national treasury to reduce the burden on borrowers.

(Underlying laws and regulations)

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

Article 23 of the Act on the Japan Student Services Organization

“The Government can subsidize part of the funds required for the scholarship programs operated by Japan Student Services Organization (JASSO) as provided for in Item 1, Paragraph 1, Article 13 of the Act within the limits of the budget.”

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

Article 46(1) of the Act on General Rules for Incorporated Administrative Agencies

“The Government can grant subsidies to cover part or whole of the funds required for the operation of incorporated administrative agencies within the limits of the budget.”

- Government investment is provided under the following law:

Article 5, Paragraph 2 of the Act on the Japan Student Services Organization

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

(Underlying law for payments to the national treasury)

Act on General Rules for Incorporated Administrative Agencies

Article 46-2

An Incorporated Administrative Agency is to make payment to the national treasury in relation to any Unnecessary Property pertaining to contribution or expenditure from the government (excluding any property which is in the form of contribution of money) (hereinafter referred to as "Unnecessary Property Pertaining to Government Contribution, etc." in this paragraph) with an authorization of the competent minister, without delay; provided, however, that the Incorporated Administrative Agency is not required to obtain an authorization of the competent minister if it specifies the plan referred to in Article 30, paragraph (2), item (v) for a Medium-term Plan of an Agency Managed under the Medium-term Objectives, the plan referred to in Article 35-5, paragraph (2), item (v) for a Medium to Long-term Plan of a National Research and Development Agency, or the plan referred to in Article 35-10, paragraph (3), item (v) for a Business Plan of an Agency Engaged in Administrative Execution, and it makes payment to the national treasury in relation to the Unnecessary Property Pertaining to Government Contribution, etc. in accordance with the relevant plan.

Supplementary Provisions (Act No.37 of May 28, 2010) (excerpt)

(Transitional measure)

Article 3 Transfer of assets that is conducted by an incorporated administrative agency before the date on which the Act comes into effect and that is defined by the competent minister as equivalent to transfer of unnecessary assets involving government investment, etc. stipulated in Article 46-2, Paragraph 1 of the new Act on the date on which the Act comes into effect shall be defined as transfer of unnecessary assets involving government investment, etc. stipulated in Paragraph 2 of the said Article conducted on the date on which the Act comes into effect, and the provisions from Paragraph 1 to Paragraph 2 of the said Article apply. In this case, “may make a payment” in Paragraph 2 of the said Article shall be replaced with “shall make a payment.”

Act on the Japan Student Services Organization

Article 18

(1) When the Organization has the reserves stipulated in Article 44(1) of the Act on the General Rules for Incorporated Administrative Agencies after the adjustments stipulated in Article 44(1) or 44(2) of the Act for the last fiscal year of the period for a medium-term target period (hereinafter referred to as the “medium-term target period” in this paragraph) stipulated by Article 29(2)(i) of the Act, the Organization may use the portion approved by the Minister of Education, Culture, Sports, Science and Technology out of the equivalent to the reserve amount for operations stipulated in Article 13 of the Act for the next medium-term plan period, under the medium-term plan approved pursuant to Article 30(1) of the Act with regard to the next medium-term target period after the relevant medium-term target period.

(2) When the Organization has a surplus after deducting the amount approved in paragraph (1) from the reserve amount stipulated in the same clause, it shall pay the surplus to the national treasury.

(3) In addition to the matters stipulated in the above two paragraphs, any other necessary matters regarding procedures for payment to the national treasury and other measures for disposal of reserves shall be stipulated by government ordinance.

6. Special remarks

- 1) The policy costs of Japan Student Services Organization (JASSO)'s non-interest-bearing loan program (using FILP) and interest-bearing loan program are incurred because JASSO provides long-term funds with low interest rates for school fees for 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) This analysis is for the accounting division of the "administration pertaining to the Category 1 Loans" (using FILP) and the "administration pertaining to the Second Category 2 Loans" under Article 17 Paragraph 1 Items 2 and 3 of the Ministerial Order Pertaining to JASSO (Incorporated Administrative Agency.)
- 3) The following systematic revisions apply for the newly qualified borrower students as of FY2007 in order to contribute to the reduction of the interest subsidies in the future and to the convenience of the students.
 - (A) Since the funds for the student loan within the period spent at school are interest-free (No interest on non-interest-bearing loans over full terms), such funds shall be short-term private borrowing, etc. in order to reduce the procurement cost of JASSO and the borrowers shall refinance such loans to long-term FILP funds upon the completion of financing depending on the selected interest rate.
 - (B) Provide students with options to select from a fixed interest rate or a variable interest rate for their repayment to eliminate the mismatching interest rates by borrowing the Fiscal Loan Fund in accordance with the selections.
- 4) The institution guarantee system by Japan Education Exchanges and Services has been introduced for recruits as well as the conventional personnel guarantee since FY2004.

The percentage of recruits in FY2016 using the institution guarantee is 41.3%.

Trend of institution guarantee members over the last three years, etc. are as follows:

<Trend of institution guarantee members (with and no interest)>

Category	FY2014	FY2015	FY2016
Number of members	216,172	199,236	185,849
Percentage	46.3%	43.5%	41.3%

(Note) Figures in the above table represent the number of institution guarantee users and their percentage share of the total number of scholarship recruits

<Trend of payment under guarantee (with and no interest)>

Category	FY2014	FY2015	FY2016
Number of payment under guarantee	6,848	7,168	7,910
Amount of payment under guarantee	¥14.414 billion	¥15.298 billion	¥17.165 billion

(Note) The amount of payment under guarantee covers principal, interest and delinquency charges

(Reference) Outcome and social and economic benefits of operations

- 1) Interest-bearing loans
 - (i) Interest-bearing loans (FY2016)

810,133 persons	¥724.0 billion
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 - (ii) Interest-bearing loans (FY1984~2016)

4,693,049 persons	¥10,613.6 billion
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 - (iii) Outstanding balance of loans (at the end of FY2016)

3,545,940 persons	¥6,498.2 billion
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 - (iv) Projected lending (FY2017 planned)

851,203 persons	¥746.1 billion
Non-interest-bearing loan program (using FILP)	36,000 persons ¥22.3 billion
Interest-bearing loan program	815,203 persons ¥723.8 billion
 - (v) Projected lending (FY2018 planned)

781,783 persons	¥693.7 billion
Non-interest-bearing loan program (using FILP)	24,352 persons ¥16.6 billion
Interest-bearing loan program	757,431 persons ¥677.1 billion

(Notes) 1. As non-interest-bearing loans using the Fiscal Loan Fund started in FY2017, results for (i), (ii) and (iii) cover interest-bearing loans alone.

2. The number of borrowers in (iii) include those who were repaying loans and those in school.

2) Social and economic benefits

(i) Under the Scholarship Loan Program, loans for school fees are provided to students at universities, junior colleges, graduate schools, technical colleges, and special training colleges (professional courses) on the assumption that they will use their income after their graduation from these institutions for repaying the loans.

A part of the non-interest-bearing loan program is a transitional, limited measure to use fiscal loans from FY2017 only for students eligible for non-interest-bearing scholarship loans who have received interest-bearing loans and those who have become eligible for them as a result of the relaxation of academic results requirements for children of low-income households.

Since FY1999, 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.

• Change in the number of borrowers

(Non-interest-bearing loan program)		(Interest-bearing loan program)	
(FY2017 planned)	(FY2018 planned)	(FY1999)	(FY2018 planned)
36,000 persons	→ 24,000 persons	208,000 persons	→ 75,7000 persons

• Change in percentage of borrowers among college students (Interest-bearing loan program)

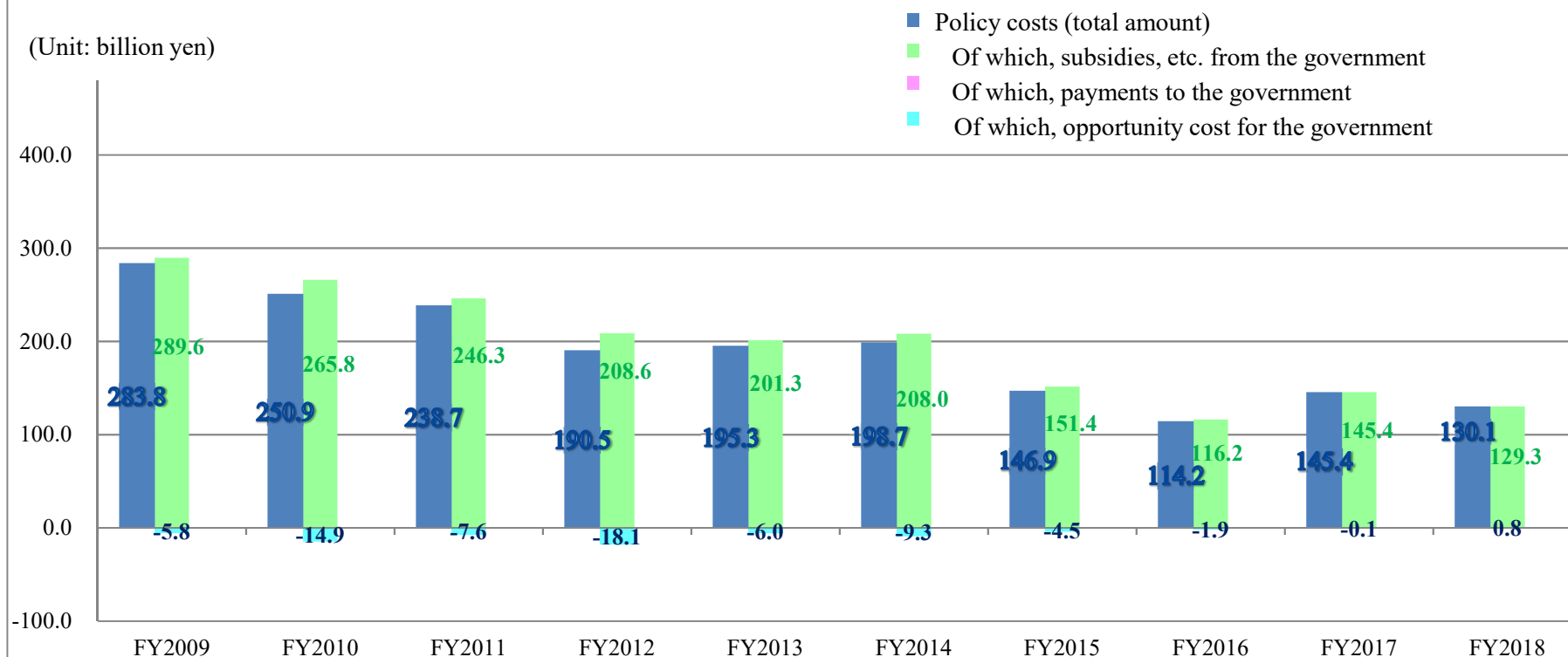
(FY1999)	(FY2018 planned)
6.1%	→ 23.1%
	(3.8 times)

(ii) Scholarship loan programs pave the way for students and others to gain independence and study with peace of mind, contribute to developing creative human resources having rich human capacities needed to shoulder the responsibilities of future generations and also to promoting mutual international understanding.

(Reference) Changes in Policy Costs by Component

<Japan Student Services Organization (Incorporated Administrative Agency)>

(Unit: billion yen)



Note: Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

(Points)

• Policy costs have been on a decreasing trend in accordance with a decline in assumed interest rates, etc. Borrowers have decreased since FY2013. In the FY2018 plan, the number of borrowers stands at 24,000 for non-interest-bearing loans (using FILP) and 757,000 for interest-bearing loans.

(Reference) The following systematic revisions apply for newly qualified borrower students as of FY2007, mainly due to the reduction of the interest subsidies in the future, eliminating the mismatching interest rates.

- (1) Borrowers shall refinance loans as FILP funds depending on the selected interest rate condition (fixed interest rate reviewed every 5 years) for repayment.
- (2) As for interest rate for repayment, students can select a fixed interest rate or a variable interest rate for borrowing from the Fiscal Loan Fund.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

Item	End of FY2016 (Result)	End of FY2017 (Estimated)	End of FY2018 (Planned)	Item	End of FY2016 (Result)	End of FY2017 (Estimated)	End of FY2018 (Planned)
(Assets)				(Liabilities and equity)			
Current assets	9,211,168	9,424,304	9,575,587	Current liabilities	1,023,261	1,014,408	971,944
Cash and bank deposits	166,796	208,373	197,186	Debt from grants for operation cost	3,160	498	-
Loans	9,009,987	9,208,129	9,374,784	Deposited subsidies	1,514	-	-
First Category Scholarships	2,641,920	2,713,531	2,801,317	Deposited donations	2,467	2,219	2,042
Second Category Scholarships	6,443,352	6,562,370	6,634,394	Japan Student Services Organization bonds to be redeemed within a year	170,000	120,000	120,000
Loan loss provisions	-75,285	-67,771	-60,928	Long-term debts payable to be repaid within a year	834,820	880,076	838,764
Securities	31,000	6,699	2,499	Accrued payments	3,356	3,356	1,287
Advance payments	4	4	4	Unpaid consumption tax, etc.	14	14	14
Prepaid expenses	14	14	14	Lease liabilities	631	619	384
Accrued income	869	902	918	Accrued expenses	6,433	6,761	8,586
Reserve for possible loan loss	-7	-8	-8	Advances received	399	399	399
Accounts receivable	2,505	191	191	Deposit payable	327	327	327
Fixed assets	171,734	162,109	168,673	Temporary receipts	141	141	141
Tangible fixed assets	36,351	35,032	33,554	Fixed liabilities	8,287,718	8,495,901	8,692,216
Buildings	23,468	22,629	21,790	Asset collateral liabilities	4,545	3,937	3,364
Structures	31	29	28	Grants for asset collateral operation cost	2,449	2,197	1,979
Vehicles and transportation equipment	1	1	1	Asset collateral facilities expenses	1	1	1
Tools and equipment	1,918	1,701	1,063	Asset collateral subsidies	2,085	1,731	1,377
Land	10,934	10,673	10,673	Asset collateral contributions	10	9	8
Intangible fixed assets	8,816	8,150	7,523	Long-term deposited donations	2,459	2,718	2,544
Land lease rights	5,451	5,451	5,451	Japan Student Services Organization bonds	120,000	120,000	120,000
Software	3,360	2,694	2,067	Discount on bond	1	1	0
Telephone subscription right	5	5	5	Long-term loans payable	8,159,706	8,368,429	8,565,881
Investment and other assets	126,567	118,927	127,596	Long-term deposits	70	70	70
Investment securities	12,777	6,086	3,593	Long-term lease liabilities	938	746	357
Bankruptcy credit, revitalization credit, rehabilitation credit and the like	94,036	102,788	112,653	(Total liabilities)	9,310,979	9,510,309	9,664,160
Loan loss provisions	-93,703	-102,354	-111,451	Capital			
Expected value of outstanding financing measures	113,415	112,360	122,755	Government's equity	100	100	100
Guarantee deposits	42	46	46	Capital surplus	34,769	34,019	33,110
				Capital surplus	-10,107	-9,969	-9,969
				Accumulated depreciation outside of profit and loss(-)	-13,860	-14,758	-15,667
				Accumulated impaired loss outside of profit and loss(-)	-10	-	-
				Private-sector contributions	58,745	58,745	58,745
				Retained earnings	37,054	41,985	46,890
				Reserve carried forward during former medium-term target period	18,030	18,030	18,030
				Reserve fund	12,768	19,024	23,955
				Unappropriated income for the current year	6,256	4,930	4,905
				(Of this, gross profit)	6,256	4,930	4,905
				(Total equity)	71,923	76,104	80,100
Total assets	9,382,902	9,586,413	9,744,260	Total liabilities and equity	9,382,902	9,586,413	9,744,260

Notes 1. The balance sheet includes costs for projects other than those subject to the policy cost analysis.

2. Components may not add up to the total because of rounding.

Income Statement

(Unit: million yen)

Item	FY2016 (Result)	FY2017 (Estimated)	FY2018 (Planned)	Item	FY2016 (Result)	FY2017 (Estimated)	FY2018 (Planned)
(Losses)				(Profits)			
Ordinary expenses	94,476	103,168	106,137	Ordinary income	98,889	108,098	111,042
Administrative expenses for scholarships	75,251	83,405	87,530	Income from grants for operating expenses	11,481	16,047	13,514
Administrative expenses for assistance to foreign students	16,641	16,740	16,157	Scholarship interest	37,380	34,788	32,261
Administrative expenses for assistance to students	271	297	310	Interest on delinquent accounts	4,009	3,095	3,236
General and administrative expenses	2,314	2,725	2,140	Income from foreign student dormitories	643	587	597
Temporary losses	14	0	-	Income from Japanese schools	309	325	325
Loss on sale of fixed assets	10	0	-	Income from fees for the Examination for Japanese University Admission for International Students	468	331	331
Loss on retirement of fixed assets	4	-	-	Other operating income	278	215	215
Payments to the national treasury	0	-	-	Trustee income	4	-	-
Net profit	6,256	4,930	4,905	Income from subsidies, etc.	17,465	25,469	24,678
Gross profit	6,256	4,930	4,905	Expected value of financing measures	23,937	23,675	32,565
				Income from donations	1,984	2,359	2,219
				Reversal of asset collateral liabilities	707	996	957
				(Reversal of grants for asset collateral operation cost)	603	640	602
				(Reversal of asset collateral facilities expenses)	1	1	-
				(Reversal of asset collateral subsidies)	102	354	354
				(Reversal of asset collateral contributions)	1	1	1
				Financial income	224	210	144
				Temporary profits	1,857	0	-
				Reversal of allowance for doubtful receivables	1,843	-	-
				Reversal of grants for asset collateral operation cost	12	0	-
				Reversal of asset collateral subsidies	1	-	-
				Reversal of asset collateral contributions	0	-	-
Total	100,746	108,098	111,042	Total	100,746	108,098	111,042

Notes 1. The income statement includes costs for projects other than those subject to the policy cost analysis.

2. Components may not add up to the total because of rounding.