

# The Promotion and Mutual Aid Corporation for Private Schools of Japan (Grant Account)

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## 1. Summary of operations implemented using FILP funds

For the purpose of maintaining and improving educational conditions of private schools diminishing the education-related economic burden on students and promoting sound management of private schools, the Promotion and Mutual Aid Corporation for Private Schools of Japan provides long-term loans with low interest rates needed to expand and improve premises buildings and other facilities of private schools.

Note: Major operations that are outside of FILP are operations such as the granting of subsidies for current expenses of private universities etc., the granting of subsidies, receipt and distribution of contributions, collection and granting of funds, information assistance concerning management and educational conditions, the granting of expenses for reducing or waiving tuition fees, short-term benefits (medical benefits, etc.), long-term benefits (pension, etc.) and welfare projects, etc.

## 2. Amount of lending under FY2021 FILP

(Unit: billion yen)

FY2021 FILP	Estimated outstanding amount of FILP lending at the end of FY2020
29.1	329.2

## 3. Estimated policy cost analysis of the project

### (1) Policy cost (Unit: billion yen)

Category	FY2020	FY2021	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*1	-14.2	-19.7	-5.4
3. Opportunity cost of capital investments, etc.	12.1	15.8	+3.7
<b>Total (1+2+3=policy cost(A))</b>	<b>-2.1</b>	<b>-3.9</b>	<b>-1.7</b>
Analysis period (years)	31 years	31 years	-

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

Category	FY2020	FY2021	Fluctuation
(A) Policy cost (previously cited)	-2.1	-3.9	-1.7
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	14.0	20.1	+6.1
2) Policy cost expected to be newly accrued during the analysis period	-16.1	-23.9	-7.8
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*1	-14.2	-19.7	-5.4
Opportunity cost of surplus, etc.	-1.9	-4.2	-2.4
Opportunity cost of capital investments, etc.	-	-	-

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

(A) Policy cost (previously cited)	Case before the negative interest rate policy*2	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
-3.9	-2.8	+1.1	-	-13.2	+14.3

(A) Policy cost (previously cited)	Case of a 1% increase in loan charge-offs	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
-3.9	-3.8	+0.0	-	+0.0	-

(Note) Components in each column may not add up to the total because of rounding.

\*1 Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

\*2 Assumed interest rates (discount factor and future interest rate) are based on the market yield on Japanese government bonds on January 28, 2016, before the introduction of the negative interest rate policy.

### (3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2020	FY2021	Simple fluctuation
		Simple comparison (before adjustment)	-2.1	-3.9
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2021 analysis)	-2.3	-3.8	-1.6
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2020)			Real fluctuation (2-1)

### 【Real fluctuation factor analysis】

#### ○Factors behind policy cost increase

- Increase in cost due to increase in administrative cost accompanying new financing (+1.6 billion yen)
- Others (increase in opportunity cost of capital investments, etc.) (+1.2 billion yen)
- Increase in cost due to increase in loan losses (+0.1 billion yen)

#### ○Factors behind policy cost decrease

- Decrease in cost through new loans provided in FY2021 (-2.9 billion yen)
- Decrease in cost settled results in FY2019 and expected revision in FY2020 (-1.6 billion yen)

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

(A) Policy cost in FY2021 (previously cited)	-3.9
1) Prepayments	0.2
2) Loan losses	-0.1
3) Others (including profit spread)	-4.0

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

- 1) Subjected to estimation: Lending by the Promotion and Mutual Aid Corporation for Private Schools of Japan (Grant Account)
- 2) Size of operations subjected to estimation: Outstanding loans at the end of FY2019 at 565.8 billion yen, loans planned in FY2020 at 62.5 billion yen, loans planned in FY2021 at 60.0 billion yen
- 3) Analysis period: 31 years from FY2021 to FY2051 when the collection of longest loans will be completed
- 4) Given that prepayments (without compensation) are planned at 0.5 billion yen for FY2021, those in FY2022 and thereafter are estimated by multiplying the balance of long-term loans at the beginning of each fiscal year by the estimated prepayment ratio of 0.09% for FY2021. Prepayments with compensation (introduced in October 1998) are projected at 2.0 billion yen for each fiscal year, based on past results. Relevant compensation revenues are also taken into account.
- 5) Of loans that were classified as those that could potentially, virtually or actually bankrupt borrowers at the end of FY2019, it is projected that 5.4 billion yen in irrecoverable loans will be charged off in the period from FY2022 through FY2034. In addition, new loans in arrears emerging in FY2022 and thereafter are calculated for each of the years with the annual increase projected at 0.02%, based on annual growth in loans that could potentially, virtually or actually bankrupt borrowers for FY2015-2019. Of the new loans in arrears, it is projected that 0.7 billion yen in irrecoverable loans will be charged off in the period from FY2022 through FY2048. At the end of FY2019, risk management loans stood at 7.1 billion yen and loan loss provisions at 6.1 billion yen (Loan loss provisions/total loans = 1.06%).

FY	Result				Estimated 2020	Planned 2021	Assumptions for calculation 2022 and on
	2016	2017	2018	2019			
Prepayment ratio	0.21%	0.34%	0.02%	0.00%	0.09%	0.09%	After FY2022 0.09%
Loan charge-off ratio	0.04%	0.01%	-	-	-	-	Average charge-off rate at 0.14% for FY2022-2051

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

Subsidies, etc. for projects under the Fiscal Investment and Loan Programs are not recorded in the FY2021 budget.

In the past fiscal years, capital investments were applied to make low-interest loans possible to private schools and to cover administrative expenses with its fund management gains.

This capital investment becomes capital of the Corporation as well as financial sources for the Corporation's lending business. Capital investments were applied in FY1952 to FY2001, FY2009 (Supplementary Budgets), FY2011 (Supplementary Budgets), FY2012 (Reserve Fund and Supplementary Budgets), and FY2014 (Supplementary Budgets).

(Underlying laws and regulations)

[Regulations for capital investments]

<Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan >

Article 5.2: The government shall be able to provide the Corporation with an additional capital investment within the limit of the amount specified in the budget when it recognizes the necessity.

3: When the capital investment prescribed in the preceding clause is made by the government the Corporation shall be able to increase its capital according to the amount of capital invested.

[Regulations with regard to the contribution to the national treasury]

<Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan >

Article 36: After completing liquidation as provided for in Article 35, Paragraph 1 or Paragraph 2 of the Act on General Rules for Incorporated Administrative Agencies in the last business year of the mid-term target period as provided for in Article 29, Paragraph 2, Item 1 of said Act which is applied mutatis mutandis in Article 26, the Corporation shall contribute to the national treasury the amount equivalent to the surplus in excess of the amount provided for in the orders of the Ministry of Education, Culture, Sports, Science and Technology taking the stability of operation of the subsidized project into account

<Enforcement Regulations for the Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan>

Article 21: The amount provided for in Article 36, Paragraph 1 of the Act which is determined by the orders of the Ministry of Education, Culture, Sports, Science and Technology shall be 2.0 billion yen.

#### 6. Special remarks

1) Most of the policy cost of the Corporation is opportunity cost of investment to maintain low interest rates. The Corporation contributes to maintaining educational condition of private schools reducing economic burden on pupils or students of private schools for education and stabilizing management of incorporated schools.

2) Based on the Act on the Promotion and Mutual Aid Corporation for Private Schools of Japan, the related provisions of the Act on General Rules for Incorporated Administrative Agencies has been applied to the medium-term target, medium-term plan, plan for the fiscal year, evaluations, etc. as well as the accounting standards for independent administrative corporations in terms of this Grant Account.

(Reference) Outcome and social and economic benefits of operations

1) Financing results

- Financing from FY1952 to FY2019 (aggregate amount) 3,300.6 billion yen (37,943 cases)
- Financing in FY2019 48.5 billion yen (100 cases)
- Outstanding balance of financing in FY2019 565.8 billion yen (2,290 cases)
- Planned financing in FY2021 60.0 billion yen

2) Main policy purposes and social/economic benefits

Approximately 80% of university students, 30% of high school students and 80% of kindergarten children go to private schools. Considering the importance of roles that private schools play in our public education the Corporation provides long-term loans with lower interest as a part of expenses for expansions of facilities that temporarily require a great amount of money. This encourages vitalization of rich and unique education and research activities of private schools and greatly contributes to the improvement of school education in our country. This leads to the fostering of human resources on whom our future depends, the development of new technologies, and the creation of new industries, and eventually makes a tremendous contribution to the development of our country. The Promotion and Mutual Aid Corporation for Private Schools of Japan provides long-term loans with low interest rates not available from private financial institutions to meet the fund needs of school juridical persons. Moreover the Corporation provides loans with favorable conditions to meet government policies or loans to carry out emergent measures including disaster restoration. Thus the Corporation's operations greatly contribute to medium and long term stabilization of the management of school juridical persons who establish private schools and to the improvement and expansion of educational environment.

(1) Percentage of school juridical person loans extended to the Corporation for financing

In regard to the conditions of loans to school juridical persons that established high schools or higher level schools as of the end of FY2019 the ratio of Corporation financing when compared to private sector financial institutions is as indicated below.

- 20-year loan term: 70.5%
- 10-year loan term: 13.5%

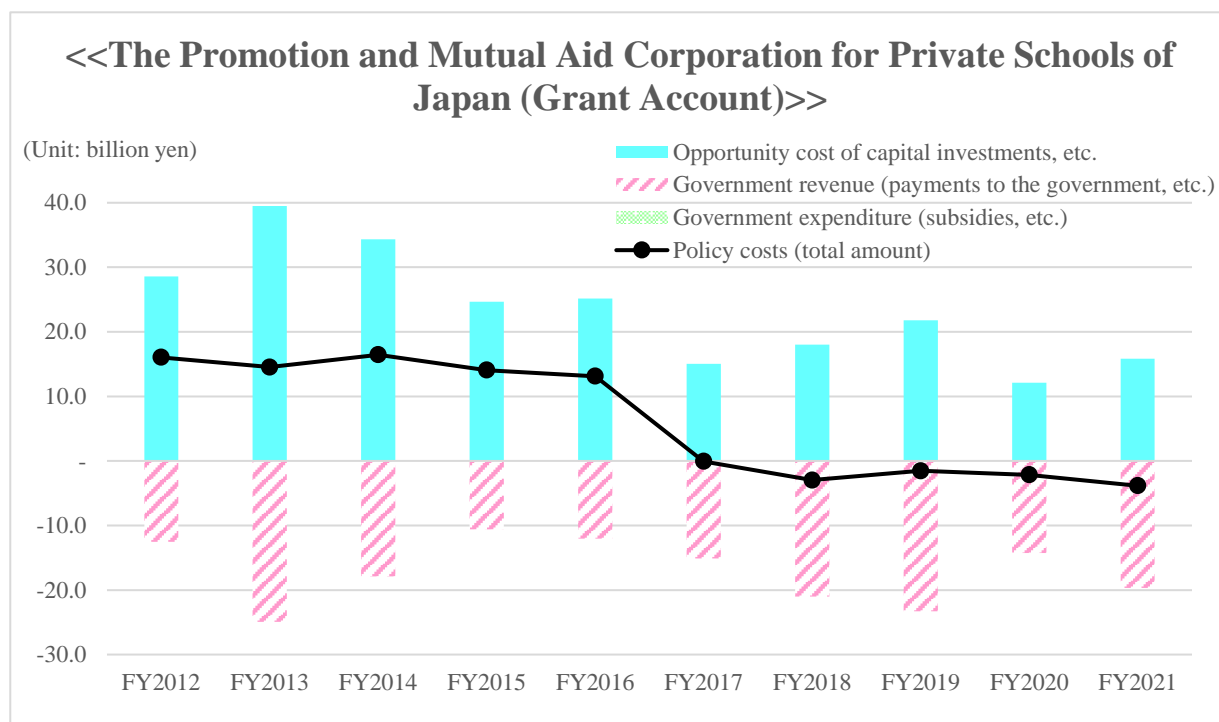
(2) Implementation of emergency policy financing, etc.

Cumulative totals of financing under favorable loan conditions in addressing policy issues (from FY2015 through FY2019) are as follows:

- Promoting the development of the education and research environment: 2.7 billion yen
- Loans to restoration support from the Great East Japan Earthquake and 2016 Kumamoto Earthquakes: 9.3 billion yen
- Seismic strengthening of private schools: 143.5 billion yen

# Overview of policy cost analysis results

## 【Changes in policy costs】



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

(Unit: billion yen)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Policy costs (total amount)	16.0	14.5	16.4	14.1	13.1	-0.1	-3.0	-1.5	-2.1	-3.9
Government expenditure (subsidies, etc.)	-	-	-	-	-	-	-	-	-	-
Government revenue (payments to the government, etc.)	-12.5	-25.0	-17.9	-10.6	-12.1	-15.1	-21.0	-23.3	-14.2	-19.7
Opportunity cost of capital investments, etc.	28.6	39.5	34.3	24.6	25.2	15.0	18.0	21.8	12.1	15.8

### 【Explanation of policy cost trends】

- Policy costs (opportunity cost of capital investments, etc. from the government) from FY2012 to FY2016 have increased due to the effects of receiving government subsidies in the FY2011 and FY2012 supplementary budgets and the FY2012 reserve funds and FY2014 supplementary budgets to respond to the disaster and provide long-term, low-interest loans.
- In FY2017, policy costs declined due to the termination of long-term, low-interest loans for the promotion of antiseismic reinforcement and the government capital investment opportunity cost's drop accompanying a change in the assumed interest rate. Decrease in cost due to new financing in FY2018. Increase in cost due to administrative cost for new financing and decrease in opportunity cost of capital investments through analysis period extension in FY2019. Decrease in cost due to new financing in FY2020 and FY2021.

### 【FILP agency's self-assessment of policy cost analysis results (FY2021)】

- As loans provided from the Grant Account are based on FILP and other loans and the Corporation's own resources or capital investments from the Government, the loan recovery amount exceeds the loan repayment amount. As surplus funds are planned to emerge in the absence of lending from the Corporation's own resources from the next year, financial earnings would fluctuate depending on changes in return on investment of surplus funds.
- As the discount factor for FY2021 was lower than the one for FY2020 on a finalized basis, it worked to increase the cost. On the other hand, due to a rise in the return on investment of surplus funds, the policy cost on a present value basis declined.
- In the case before the negative interest rate policy, the nominal policy cost came to -47.3 billion yen, indicating a cost drop, due to a rise in the return on investment compared with the basic case. However, due to a decline in the discount factor, the result was similar to the above.
- As 108.7 billion yen in capital investments introduced for the lending operation are set to be paid back to the government in the final year of the analysis period, a decline in the discount factor at the time of the payment works to directly raise cost. Comparison between the basic and sensitivity analysis cases indicates that the policy cost after the discount rose by 1.1 billion yen.
- In the lending operation, an investment return rise and a discount factor decline work to boost the policy cost for a case in which the lending operation is discontinued, with capital investments paid back to the government. If the lending operation is continued, with no capital investments required to be paid back to the government, however, the investment return rise and discount factor decline work to lower the policy cost.
- In the case of a 1% increase in loan charge-offs, allowances for loan loss provisions increased due to a 1% increase in the loan delinquency rate regarding new loans. As a result, the policy cost increased by 10 million yen due to a decrease in payments to the government.
- Anyway, the FY2021 policy cost analysis indicates a negative policy cost on nominal and present value bases, indicating that lending operations subjected to FILP can be assessed as sound.

## (Reference) Financial Statements

## Balance Sheet (Grant Account)

(Unit: million yen)

Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)	Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)
<b>(Assets)</b>				<b>(Liabilities and equity)</b>			
Current assets	580,813	589,300	598,104	Current liabilities	64,113	61,498	61,698
Cash and bank deposits	21,265	20,111	20,193	Contributions received	14,950	14,971	14,972
Loans	562,955	572,675	581,421	Bonds for the promotion of private schools payable within one year	8,000	5,000	5,000
Allowance for possible loan losses	- 3,732	- 3,763	- 3,794	Long-term loans payable within one year	40,660	41,003	41,180
Accounts receivable	92	0	0	Accrued payments	311	311	311
Accrued income	232	270	277	Accrued expenses	90	95	110
Allowance for possible loan losses	- 1	- 1	- 1	Accrued corporate tax, etc.	0	0	0
Return for provision for bonuses	-	6	6	Reserves			
Other current assets	2	2	2	Reserve for bonuses	93	108	115
Fixed assets	4,183	4,617	4,550	Other current liabilities	11	10	10
Tangible fixed assets	1,387	1,334	1,282	Fixed liabilities	405,483	417,164	425,680
Buildings	690	640	592	Asset collateral liabilities			
Structures	3	3	3	Asset collateral subsidies	30	23	17
Vehicles and transportation equipment	1	1	1	Long-term contributions received	616	545	492
Tools furniture and fixtures	30	27	23	Private School Promotion bonds	10,000	5,000	0
Land	663	663	663	Long-term loans payable	393,101	409,798	423,319
Intangible fixed assets	343	340	354	Reserves			
Software	343	340	354	Reserve for retirement pensions	1,735	1,797	1,852
Telephone subscription right	0	0	0	(Total liabilities)	469,596	478,662	487,379
Investment and other assets	2,453	2,942	2,913	Capital			
Investment securities	2,050	2,558	2,549	Financing by the Government	108,678	108,678	108,678
Bankruptcy or rehabilitation claims, etc.	2,821	2,821	2,821	Capital surplus			
Loan loss provisions	- 2,418	- 2,437	- 2,457	Private-sector contributions	5,415	5,416	5,417
Others	0	0	0	Retained earnings	1,307	1,161	1,181
				Unappropriated profit or loss (-) for the period	1,274	1,277	1,161
				(of this, gross profit or loss (-))	34	- 116	20
				Reserve fund	(34)	(- 116)	(20)
				(Total equity)	115,400	115,255	115,276
Total assets	584,996	593,916	602,654	Total liabilities and equity	584,996	593,916	602,654

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 (Grant Account)

(Unit: million yen)

Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)
Ordinary expenses	364,635	530,809	514,763
Operating expenses	362,613	528,877	514,137
General and administrative expenses	602	618	626
Miscellaneous losses	1,420	1,314	-
Ordinary income	364,656	530,694	514,783
Revenues from subsidies, etc.	316,693	502,198	487,151
Interest on loans	5,476	5,056	5,501
Contributions	41,054	22,105	22,110
Income regarding return for provision for bonuses	-	6	6
Reversal of asset collateral liabilities	2	6	6
Financial income	0	0	0
Miscellaneous income	1,432	1,323	9
Ordinary profit or loss (-)	20	- 115	20
Extraordinary losses	91	0	0
Loss on retirement of fixed assets	0	0	0
Loss on profit and loss adjustment for the previous fiscal year	90	-	-
Extraordinary profits	104	-	-
Allowances for bad debts	11	-	-
Gain on profit and loss adjustment for the previous fiscal year	93	-	-
Net profit or loss (-) before tax	34	- 116	20
Corporate tax, residence tax and enterprise tax	0	0	0
Net profit or loss (-)	34	- 116	20
Gross profit or loss (-)	34	- 116	20

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.