

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, short-term benefits (medical benefits etc.), long-term benefits (pension etc.) and welfare projects etc.

2. Amount of lending under FY2020 FILP

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
29.1	327.9

3. Estimated policy cost analysis of the project

(1) Policy cost

(Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)* ¹	-23.3	-14.2	+9.1
3. Opportunity cost of capital investments, etc.	21.8	12.1	-9.7
Total (1+2+3=policy cost(A))	-1.5	-2.1	-0.6
Analysis period (years)	31 years	31 years	-

(2) Breakdown of policy cost by the time of the provision of funds

(Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
(A) Policy cost (previously cited)	-1.5	-2.1	-0.6
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	23.5	14.0	-9.5
2) Policy cost expected to be newly accrued during the analysis period	-25.0	-16.1	+8.9
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)* ¹	-23.3	-14.2	+9.1
Opportunity cost of surplus, etc.	-1.7	-1.9	-0.2
Opportunity cost of capital investments, etc.	-	-	-

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2019	FY2020	Simple fluctuation
		Simple comparison (before adjustment)	-1.5	-2.1
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2020 analysis)	-1.9	-2.7	-0.8
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2019)			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 (+1.3 billion yen)

- Others (increase in opportunity cost of capital investments, etc.) (+1.3 billion yen)

○Factors behind policy cost decrease

- Decrease in cost through new loans provided in FY2020 (-2.6 billion yen)

- Decrease in cost settled results in FY2018 and expected revision in FY2019 (-0.4 billion yen)

- Decrease in cost due to decrease in loan losses (-0.4 billion yen)

(4) Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2020 (previously cited)	-2.1
1) Prepayments	0.3
2) Loan losses	-0.3
3) Others (including profit spread)	-2.1

(5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy* ²	Fluctuation	1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)* ¹	3. Opportunity cost of capital investments, etc.
			-2.1	-1.4	+0.8

(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.

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 FY2018 at 574.0 billion yen, loans planned in FY2019 at 62.5 billion yen, loans planned in FY2020 at 62.5 billion yen
- 3) Analysis period: 31 years from FY2020 to FY2050 when the collection of longest loans will be completed
- 4) Given that prepayments (without compensation) are planned at 0.5 billion yen for FY2020, those in FY2021 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 FY2020. 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 FY2018, it is projected that 5.3 billion yen in irrecoverable loans will be charged off in the period from FY2021 through FY2034. In addition, new loans in arrears emerging in FY2021 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 FY2014-2018. 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 FY2021 through FY2042. At the end of FY2018, risk management loans stood at 7.0 billion yen and loan loss provisions at 6.2 billion yen (Loan loss provisions/total loans = 1.07%).

FY	Result				Estimated 2019	Planned 2020	Assumptions for calculation 2021 and on
	2015	2016	2017	2018			
Prepayment ratio	0.15%	0.21%	0.34%	0.02%	0.09%	0.09%	After FY2021 0.09%
Loan charge-off ratio	-	0.04%	0.01%	-	-	-	Average charge-off rate at 0.14% for FY2021-2050

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 FY2020 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 FY2018 (aggregate amount)	3,252.1 billion yen (37,843 cases)
• Financing in FY2018	53.6 billion yen (146 cases)
• Outstanding balance of financing in FY2018	574.0 billion yen (2,439 cases)
• Planned financing in FY2020	62.5 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 FY2018 the ratio of Corporation financing when compared to private sector financial institutions is as indicated below.

- 20-year loan term: 73.0%
- 10-year loan term: 13.5%

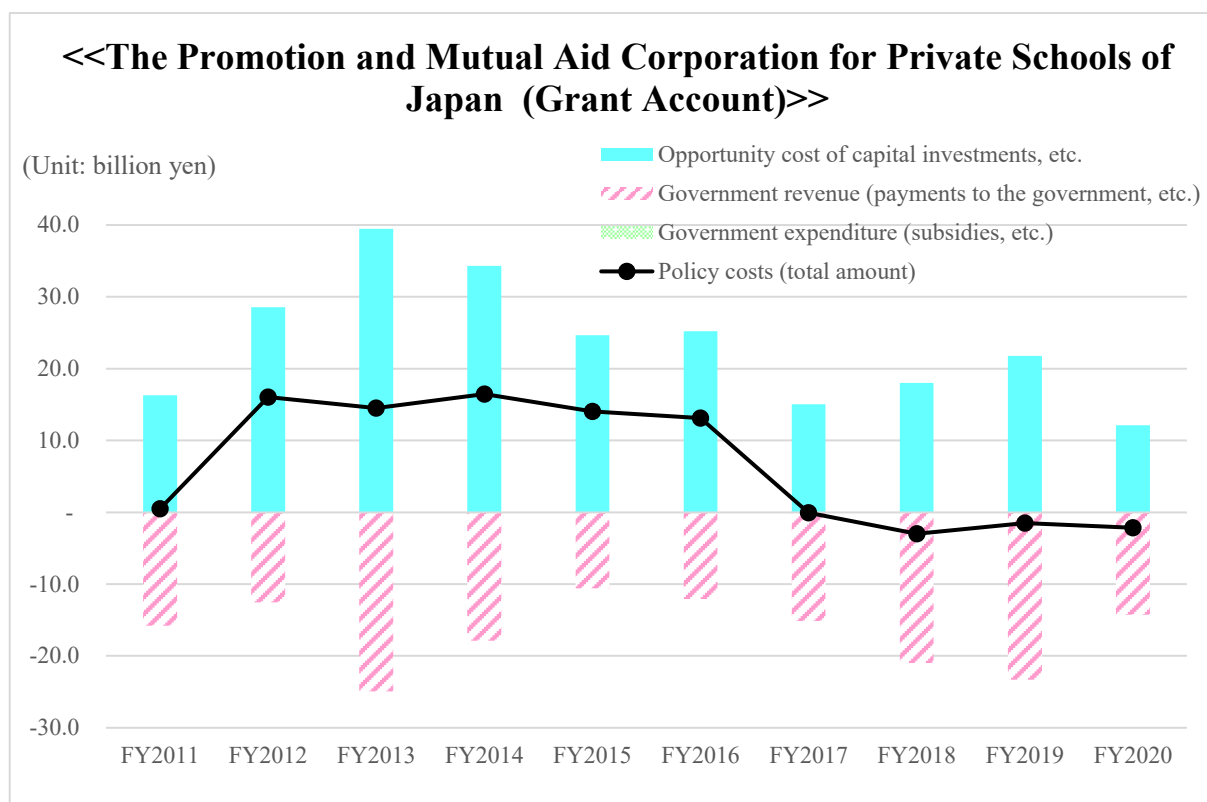
(2) Implementation of emergency policy financing, etc.

Cumulative totals of financing under favorable loan conditions in addressing policy issues (from FY2014 thorough FY2018) are as follows:

- Promoting the development of the education and research environment: 5.1 billion yen
- Loans to restoration support from the Great East Japan Earthquake and 2016 Kumamoto Earthquakes: 9.1 billion yen
- Seismic strengthening of private schools: 186.1 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)

FY	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	0.5	16.0	14.5	16.4	14.1	13.1	-0.1	-3.0	-1.5	-2.1
Government expenditure (subsidies, etc.)	-	-	-	-	-	-	-	-	-	-
Government revenue (payments to the government, etc.)	-15.8	-12.5	-25.0	-17.9	-10.6	-12.1	-15.1	-21.0	-23.3	-14.2
Opportunity cost of capital investments, etc.	16.3	28.6	39.5	34.3	24.6	25.2	15.0	18.0	21.8	12.1

【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 anti-seismic 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.

【FILP agency's self-assessment of policy cost analysis results (FY2020)】

- 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.
- The return on investment of surplus funds for FY2020 fell from FY2019, working to boost the policy cost. As the discount factor was improved, however, the policy cost in the present value decreased.
- In the sensitivity analysis, the return on investment rose on the contrary to the above, the nominal policy cost came to -45.7 billion yen, indicating a cost drop. As the discount factor worsened to boost cost, however, the result was similar to the above.
- As 108.7 billion yen in capital investments introduced for lending operations are set to be paid back to the Government in the final year of the analysis period, the deterioration of the discount factor works to directly raise cost. Comparison between the basic and sensitivity analysis cases indicates that the discounted policy cost rose by 800 million yen.
- In lending operations, an investment return rise and a discount factor deterioration work to boost the policy cost for a case in which lending operations are discontinued, with capital investments paid back to the Government. If lending operations are continued, with no capital investments required to be paid back to the Government, however, the investment return rise and discount factor deterioration work to lower the policy cost.
- Anyway, the FY2020 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 FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)	Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
(Assets)				(Liabilities and equity)			
Current assets	604,375	610,995	620,005	Current liabilities	83,988	79,204	76,016
Cash and bank deposits	36,598	37,628	37,519	Contributions received	30,182	30,196	30,202
Loans	571,140	576,840	585,944	Bonds for the promotion of private schools payable within one year	8,000	8,000	5,000
Allowance for possible loan losses	- 3,683	- 3,713	- 3,744	Long-term loans payable within one year	45,385	40,660	40,448
Accounts receivable	70	1	1	Accrued payments	217	140	140
Accrued income	246	233	283	Accrued expenses	112	114	133
Allowance for possible loan losses	- 0	- 0	- 0	Accrued corporate tax, etc.	0	0	0
Return for provision for bonuses	-	5	2	Reserves			
Other current assets	4	1	1	Reserve for bonuses	78	86	84
Fixed assets	3,907	3,903	3,843	Other current liabilities	14	9	9
Tangible fixed assets	1,431	1,391	1,340	Fixed liabilities	408,927	420,462	432,701
Buildings	731	694	648	Asset collateral liabilities			
Structures	3	3	3	Asset collateral subsidies	5	30	23
Vehicles and transportation equipment	1	1	1	Long-term contributions received	684	606	546
Tools furniture and fixtures	33	29	25	Private School Promotion bonds	18,000	10,000	5,000
Land	663	663	663	Long-term loans payable	388,561	408,101	425,353
Intangible fixed assets	192	257	275	Reserves			
Software	192	257	275	Reserve for retirement pensions	1,677	1,725	1,779
Telephone subscription right	0	0	0	(Total liabilities)	492,915	499,666	508,717
Investment and other assets	2,283	2,256	2,228	Capital			
Investment securities	1,857	1,850	1,842	Financing by the Government	108,678	108,678	108,678
Bankruptcy or rehabilitation claims, etc.	2,905	2,905	2,905	Capital surplus			
Loan loss provisions	- 2,478	- 2,499	- 2,519	Private-sector contributions	5,415	5,416	5,417
Others	0	0	0	Retained earnings	1,274	1,138	1,036
Total assets	608,282	614,898	623,848	Reserve fund	1,726	1,274	1,138
				Unappropriated loss for the period	- 452	- 136	- 101
				(of this, gross loss)	(- 452)	(- 136)	(- 101)
				(Total equity)	115,367	115,231	115,131
				Total liabilities and equity	608,282	614,898	623,848

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 FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
Ordinary expenses	350,176	347,050	520,582
Operating expenses	347,803	345,006	519,955
General and administrative expenses	606	625	627
Miscellaneous losses	1,766	1,420	-
Ordinary income	349,723	346,914	520,481
Revenues from subsidies, etc.	316,682	317,916	492,454
Interest on loans	5,902	5,457	5,904
Contributions	25,359	22,106	22,105
Income regarding return for provision for bonuses	-	5	2
Reversal of asset collateral liabilities	0	2	7
Financial income	0	0	0
Miscellaneous income	1,779	1,429	9
Ordinary loss	453	136	101
Extraordinary losses	0	-	-
Loss on retirement of fixed assets	0	-	-
Extraordinary profits	1	-	-
Gain on profit and loss adjustment for the previous fiscal year	1	-	-
Net loss before tax	452	136	101
Corporate tax, residence tax and enterprise tax	0	0	0
Net loss	452	136	101
Gross loss	452	136	101

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.