

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 FY2012 FILP

(Unit: billion yen)

FY2012 FILP (after the supplementary budget)	Estimated outstanding amount of FILP lending at the end of FY2011
54.5	272.5

3. Outcome and social and economic benefits of operations

1) Financing results

- Financing from FY1952 to FY2010 (aggregate amount)
¥2,756.3 billion (36,581 cases)
- Financing in FY2010
¥70.1 billion (138 cases)
- Outstanding balance of financing in FY2010
¥617.8 billion (2,991 cases)
- Planned financing in FY2012
¥93.8 billion

2) Social and 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 fostering of human resources on which our future depends the development of new technologies and the creation of new industries which 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 FY2010 the ratio of Corporation financing when compared to private sector financial institutions is as indicated below.

- 20-year loan term: 81.3%
- 10-year loan term: 25.8%

(2) Implementation of emergency policy financing

Cumulative totals of financing under favorable loan conditions in addressing policy issues (from FY2006 thorough FY2010) are as follows:

- Development of strategic research base in private universities: ¥2.6 billion
- Facilities to upgrade research activities: ¥0.1 billion
- Development of facilities for next-generation-type schools: ¥2.6 billion
- Disaster prevention measures (against earthquake): ¥1.3 billion

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

Policy (subsidy) cost

(Unit: billion yen)

Category	FY2011	FY2012	Fluctuation
1. Subsidies, etc. from the Government	-	-	-
2. Money transferred to the Government	-15.8	-12.5	+3.3
Subtotal (1+2)	-15.8	-12.5	+3.3
3. Opportunity cost of capital investments, etc. from the Government	16.3	28.6	+12.3
Subtotal (1+2+3)	0.5	16.0	+15.5
4. Decrease in retained losses	-	-	-
Total (1+2+3+4=policy cost(A))	0.5	16.0	+15.5
Analysis period (years)	21	26	5

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

(Unit: billion yen)

Category	FY2011	FY2012	Fluctuation
(A) Policy cost (previously cited)	0.5	16.0	+15.5
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	20.5	34.4	+13.8
2) Policy cost expected to be newly accrued during the analysis period	-20.0	-18.3	+1.7
Subsidies, etc. from the Government	-	-	-
Money transferred to the Government	-15.8	-12.5	+3.3
Policy cost accrued with a change in surplus funds	-4.3	-5.8	-1.6
Opportunity cost of capital investments, etc.	-	-	-

Year-to-Year comparison analysis

(Unit: billion yen)

Category	FY2011	FY2012	Fluctuation
(A) Policy cost (previously cited)	0.5	16.0	+15.5
(A') Policy cost obtained by re-calculating (A) using the same assumed interest rate as in the FY2011 analysis	0.5	17.0	+16.5
(B) Policy cost of (A') generated in FY2012 or later	0.5	17.0	+16.5

Policy cost in FY2012 is ¥16.0 billion. The analysis shows a increase of ¥16.5 billion in real policy cost over FY2011 when the effect of change in the assumed interest rate for FY2011 and FY2012 is eliminated and the policy costs that accrue in FY2012 and thereafter are compared.

The increase in real cost is considered to be caused by the following factors:
 • Increase in cost as a result of FY2012 new finance (¥0.9 billion)
 • Increase in cost due to a gap between FY2010 and 2011 lending plans and actual loans (+ ¥2.0billion)
 • Increase in cost due to increase in bad debt write-off (+ ¥4.0 billion)
 • Increase in cost of administrative expenses(+ ¥0.8 billion)
 • Other factors (government investment capital opportunity cost rise, etc.) (+ ¥8.8 billion)

Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2012 (previously cited)	16.0
1) Prepayments	3.9
2) Loan losses	10.1
3) Others (including profit spread)	2.1

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%	Without change in discount factor	With change in discount factor
	15.4(-0.7)	30.8(+14.7)
Fluctuation in opportunity cost	+0.0	+13.1
10% rise in charge-off	17.1(+1.0)	
Fluctuation in opportunity cost	+0.0	

(Reference)

Budgeted amount of subsidies and capital investment in FY2012

Subsidies: -
 Capital investment: -

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

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

- 1) Loans provided by the Corporation out of the Subsidy Account are included in the calculation.
- 2) Calculation is performed assuming that the FY2012 loan plan (¥93.8 billion) will be implemented in addition to the loan balance of ¥691.3 billion already provided (estimated at the end of FY2011)
- 3) The analysis period continues for a period of 26 years until loans provided under the FY2012 loan plans are recovered in full.
- 4) Given that voluntary prepayments are planned at ¥5.0 billion for FY2012, those in FY2013 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 0.81% for FY2011. Prepayments with compensation (introduced in October 1998) are projected at ¥1.0 billion 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 FY2010, it is projected that ¥8.4 billion in irrecoverable loans will be charged off in the period from FY2013 through FY2027. In addition, new loans in arrears emerging in FY2013 and thereafter are calculated for each of the years with the annual increase projected at 0.24%, based on annual growth in loans that could potentially, virtually or actually bankrupt borrowers for FY2008-2010. Of the new loans in arrears, it is projected that ¥10.6 billion in irrecoverable loans will be charged off in the period from FY2013 through FY2037 when the projects are completed. At the end of FY2010, risk management loans stood at ¥11.8 billion and loan loss provisions at ¥8.3 billion (Loan loss provisions/total loans = 1.34%).

(Unit: %)

	Result					Estimated	Planned	Trial assumption
FY	2006	2007	2008	2009	2010	2011	2012	2013 and thereafter
Voluntary prepayment ratio	1.04	1.06	0.95	0.86	0.91	0.81	0.81	2013 and thereafter 0.81%
Loan charge-off ratio	0.13	0.02	-	0.01	-	-	-	Average charge-off rate at 0.37% for FY2013-2037

- 6) Office expenses are reduced linked with decrease in the balance of loans after excluding expenditures for new loans in FY2013 and thereafter.

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

Subsidies make low-interest loans possible to private schools and the capital investment is applied 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. Although the additional capital investment has been suspended since FY2002, FY2009 and 2011 Supplementary Budget added ¥11.0 billion and ¥28.2 billion as an investment.

(Underlying laws and regulations)

- Regulations for capital investments

<The Promotion and Mutual Aid Corporation for Private Schools of Japan Law>

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

<The Promotion and Mutual Aid Corporation for Private Schools of Japan Law>

Article 36: After completing liquidation as provided for in Paragraph 1 or Paragraph 2 of Article 29 of the Incorporated Administrative Agency Supplemental Law in the last business year of the mid-term target period as provided for in Item 1 Paragraph 2 Article 29 of said Law 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 Promotion and Mutual Aid Corporation for Private Schools of Japan Law>

Article 12: The amount provided for in Paragraph 1 Article 36 of the Law which is determined by the orders of the Ministry of Education Culture Sports Science and Technology shall be ¥2.0 billion.

7. 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 General Rule Act for Independent Administrative Corporations 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.
- 3) Changes in policy cost to date are as indicated below.

FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
¥4.9 billion	¥2.0 billion	¥1.8 billion	¥4.5 billion	¥4.7 billion	¥3.5 billion	¥3.3 billion	¥3.0 billion	¥1.5 billion	¥1.3 billion	¥0.5 billion	¥16.0 billion

(Reference) Financial Statements

Balance Sheet

(Unit : million yen)

Item	End of FY2010 (Result)	End of FY2011 (Estimated)	End of FY2012 (Planned)	Item	End of FY2010 (Result)	End of FY2011 (Estimated)	End of FY2012 (Planned)
(Assets)				(Liabilities and equity)			
Current assets	622,015	694,807	716,823	Current liabilities	71,293	75,997	73,155
Cash and deposits	13,316	12,620	12,362	Contributions received	10,767	10,767	10,767
Securities	219	231	181	Bonds for the promotion of private schools payable within one year	6,000	6,000	6,000
Loans	612,244	685,769	708,151	Issuance difference on bonds	-0	-	-0
Reserve for possible loan loss	-4,283	-4,370	-4,458	Long-term loans payable within one year	53,978	58,721	55,876
Accounts receivable	34	34	34	Accounts payable	69	69	69
Accrued income	486	523	553	Accrued expenses	406	366	369
Loan loss provisions	-2	-2	-2	Accrued corporate tax	0	0	0
Other current assets	2	2	2	Reserve			
Fixed assets	8,206	8,047	7,941	Reserve for bonus	66	66	66
Tangible fixed assets	1,351	1,320	1,293	Other current liabilities	7	7	7
Buildings	647	622	596	Fixed liabilities	491,935	531,386	556,639
Structures	2	2	2	Long-term contributions received	166	104	79
Vehicles and transportation equipment	1	1	0	Private School Promotion bonds	62,000	61,000	60,000
Tools furniture and fixtures	37	32	32	Discount on bonds (-)	-6	-5	-3
Land	663	663	663	Long-term loans payable	428,688	469,156	495,379
Intangible fixed assets				Reserve			
Telephone subscription right	0	0	0	Reserve for retirement benefits	1,086	1,131	1,184
Investments and other assets	6,855	6,726	6,648	(Total liabilities)	563,228	607,382	629,794
Investment in securities	5,309	5,261	5,263	Capital			
Bankruptcy or rehabilitation claims, etc.	5,533	5,533	5,533	Financing by the Government	59,969	88,135	88,135
Loan loss provisions	-3,986	-4,067	-4,148	Capital surplus			
Others	0	0	0	Private contributions	5,383	5,389	5,395
				Earned surplus	1,641	1,947	1,439
				Reserve funds	1,254	1,441	1,747
				Unappropriated retained earnings for the period	387	506	-308
				(Of which gross profit)	(387)	(506)	(-308)
				(Total equity)	66,993	95,471	94,970
Total assets	630,221	702,854	724,764	Total liabilities and equity	630,221	702,854	724,764

Income Statement

(Unit : million yen)

Item	FY2010 (Result)	FY2011 (Estimated)	FY2012 (Planned)	Item	FY2010 (Result)	FY2011 (Estimated)	FY2012 (Planned)
(Losses)				(Profits)			
Ordinary expenses	349,384	366,537	353,267	Ordinary income	349,736	366,986	352,902
Operating expenses	346,394	364,298	352,673	Subsidies	322,182	339,391	326,326
General and administrative expenses	535	589	594	Loan interest	12,315	11,786	12,417
Miscellaneous loss	2,456	1,649	-	Contributions	12,764	14,143	14,143
Extraordinary loss				Financial income	2	3	3
Loss on disposal of fixed assets	0	-	-	Miscellaneous income	2,473	1,663	14
Net profit before tax or loss (-)	387	506	-308	Extraordinary profit			
Corporate tax, residence tax and enterprise tax	0	0	0	Gain on profit and loss adjustment for the previous fiscal year	36	57	57
Gross profit or loss (-)	387	506	-308				
Total	349,771	367,043	352,959	Total	349,771	367,043	352,959

Note: Totals may not agree due to rounding.