

**Students' Loan Bureau
Annual Report for Year Ended March 31, 2011**

1.0 Introduction

1.1 The matter for tabling in the Houses of Parliament is the Annual Report for the Students' Loan Bureau (SLB) for the year ended March 31, 2011.

1.2 The SLB began operations in 1970 and was incorporated as a statutory body under the Students' Loan Fund Act (SLFA) in 1971. The students' Revolving Fund was established under the SLFA to grant loans to eligible Jamaicans pursuing tertiary education. The Bureau is mandated to provide affordable financial assistance including Grant-in-Aid to needy Jamaicans that require assistance in offsetting other education related expenses. SLB's role remains critical as the demand for tertiary loans has increased significantly over the years due to economic challenges and other factors that included a reduction in government spending at tertiary institutions. The rate of repayment by borrowers also declined and this resulted in the Bureau instituting a range of measures to bolster collections to ensure the sustainability of the revolving fund.

1.3 The SLB celebrated its 40th anniversary in July 2011 and remained committed to continuing its contribution to national development. The promotion of the Bureau's services continued in earnest with radio broadcasts and supplements in the print media. Activities to promote the initiatives and to encourage applicants and guarantors to utilize on line services of the Bureau were conducted via the "SLB on the Road" feature. The Government of Jamaica (GOJ) supported the Bureau by way of grants, as well as the facilitation of collaborative efforts to secure funding for loan disbursements and the non-reimbursable grant-in-aid programme for students in need.

2.0 Disclosures

2.1 Auditors' Report

2.1.2 The auditors KPMG, Chartered Accountants performed the audit which resulted in the SLB receiving an unqualified report. The examinations were conducted in accordance with the International Standards on Auditing, and KPMG indicated that the financial statements complied with the provisions of the Companies Act of Jamaica. The audit report also stated that proper accounting records were kept and noted that the financial statement gives a true and fair view of the state of affairs of the Bureau.

2.2 Compensation Packages for Senior Executives

2.2.1 Pursuant to the Second Schedule (Part 1) of the Public Bodies Management and Accountability Act (Amendment 2011), details of the compensation packages for the executive managers are included in the Annual Report. For the 2010/11 financial year, the emoluments paid to eleven (11) senior executives ranged between \$0.44 million and \$5.87 million. Notably, the salary of the Human Resource Manager related to a 2-month period while that of the Financial Controller was repositioned due to the reinstatement of the Management Accountant during the year.

3.0 Operational Review

3.1 During financial year 2010/11, the management structure at the SLB experienced major changes with the appointment of a new Board and Executive Director that effected several policy changes including the realignment of several departments through which the Bureau's services are discharged. Notably, some policy changes were implemented which benefited the beneficiaries while seeking to maximize collections. These included a reduction in interest rate on all loans from 12% to 9% "add on" and a reduction in the insurance rate to \$1.00 per thousand dollars of loan from \$1.50. Additionally, an extension of 2 years to the loan tenure for specific groups of beneficiaries including lawyers, doctors and nurses was effected. The SLB also revised and amended its policy to allow guarantors of student borrowers to access the relevant documents on-line and complete the process without having to visit the business office.

3.1.2 Changes in economic conditions resulted in SLB recording significant growth in the demand for tuition financing. A total of 9,899 applications were approved at a value of \$2,010.03 million, an increase of 1,276 or 14% above the 8,623 approved in the previous academic year. Notably, of the forty-four (44) institutions approved for funding through the SLB, the three (3) largest including University of Technology, University of the West Indies and Northern Caribbean University received 77% of the total funds disbursed for the 2010/11 academic year. In addition to tuition funding, the Bureau also disbursed \$105.05 million in grants to 2,392 students assessed to be in need of assistance to offset education related expenses.

3.1.3 The primary challenge experienced by the Bureau was insufficient funds for disbursement of tuition loans. This resulted in the widening of the gap between the demand and supply of funds available for disbursement. Government of Jamaica was constrained in providing budgetary support to the SLB and this resulted in funding being accessed from external sources to supplement the inflows from repayment. Approval was also granted for the Bureau to approach local and overseas foundations for the provision of grant funding to increase the pool of available funds for tuition loan financing. No grant funding was derived from these sources, however, a loan of US\$20 million was approved by the Caribbean Development Bank.

3.1.4 Delinquent loans accounted for 24% for the total loan portfolio at March 31, 2011 relative to the 34% recorded in the prior year. Despite a 10% reduction in delinquency, the low repayment rate continued to challenge the sustainability of the revolving loan fund which places reliance on repayment flows to disburse tuition loans. The increased rate of delinquency was due mainly to the downturn in the economy and the high rate of unemployment which continued to impact the customers' ability to honour their monthly payments. Notwithstanding the challenges, the Bureau pursued rigorous collection methods through an active call centre, a 'Faces of Delinquency' publication, an amnesty which provided waivers on late fees and accrued interest for borrowers in arrears, the use of third party collection agents and partnerships with other GOJ agencies, employers and professional associations to track delinquent student borrowers.

4.0 Financial Overview

4.1 Profitability

4.1.1 Table 1 indicates that at March 2011, SLB realised a net deficit of \$510.26 million, a significant decline of \$1,230.31 million below the \$720.05 million surplus in 2009/10. The

considerable deterioration in performance resulted directly from policy changes to income recognition and bad debt. The loan loss policy was amended to provide adequate coverage for the risk in the loan portfolio, including the non-accrual of interest income that is uncollected after 90 days. This adjustment resulted in an overall deficit position at March 31, 2011 as loans and accrued interest net of provision increased by \$684.90 million to \$1,242.85 million over the \$557.95 million in the prior year.

4.1.2 Income

4.1.3 SLB's total income was \$1,098.02 million and indicated a decline of \$151.2 million or 9% below the \$1,596.40 million earned in the prior year. This performance was influenced primarily by an overall decline of \$267.82 million or 80% in interest income below the \$336.54 million posted in the prior year. The decline in interest income resulted from the lowering of the weighted average deposit rates consistent with the Jamaica Debt Exchange programme implemented in February 2010.

Table 1: Income and Expenditure Statements (\$million)

Income				
Interest on Student Advances	857.89	665.82	192.07	29%
Interest on Investments	68.72	336.54	-267.82	-80%
Other Income	67.82	61.13	6.69	11%
Government Grant	103.59	38.06	65.53	172%
Total Income	1,098.02	1,101.55	-3.53	0%
Expenses				
Salaries and Related Costs	145.42	126.21	-19.21	-15%
Bad Debt expense	1234.89	67.71	-1167.18	-1724%
Depreciation	10.33	10.54	0.21	2%
Grant-in-aid	105.06	40.2	-64.86	-161%
Other expenses	62.61	58.1	-4.51	-8%
Finance Cost	49.97	78.74	28.77	37%
Total Expenses	1608.28	381.5	-1226.78	-322%
Net Surplus	-510.26	720.05	-1230.31	-171%

4.1.4 Expenses

4.1.5 Total expenses were \$1,608.28 million, an increase of \$1,226.78 million above the \$381.5 million recorded in the 2009/10 financial year. The considerable increase in expenditure resulted chiefly from an amendment to the loan loss provision which resulted in a \$1,234.89 million adjustment in bad debt expenses compared to the \$67.71 million in the prior year. This adjustment resulted in a worsening of the expense to income ratio from 65% to 146% during the period.

4.2 Balance Sheet Highlights

4.2.1 Solvency and Liquidity

4.2.2 At March 2011, SLB's operations remained viable as total assets were valued at \$9,785.15 million, an increase of \$602.87 million or 6.6% over the \$9,182.27 million in the prior period. The main contributors to growth were advances and accrued interest receivable (\$758.43 million) and

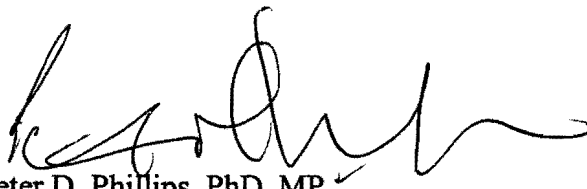
insurance fund investments of \$231.73 million. For the corresponding period, current and long-term debts also rose by \$881.4 million to \$3,636.79 due primarily to draw-downs the US\$20 million loan accessed from the Caribbean Development Bank.

4.2.3 Notably, SLB posted a \$124.12 million or 3% decline in current assets accompanied by a corresponding increase of \$56.06 million or 9% in current liabilities. The reduction in current assets was attributed primarily to an increase of \$39.25 million or 3% in uncollected student receivables accompanied by reductions of \$149.77 million in short-term investments and \$251.23 million or 25% in cash and cash equivalents. The decline was however offset by growth of \$231.73 million in insurance fund investments. SLB's net worth recorded an increase of \$774.17 million or 14.4% to \$6,149.35 million compared to \$5,375.18 million in 2010. This was influenced largely by the overall improvement of \$719.17 million or 15.74% in loans and accrued interest receivable as well as growth in insurance fund investments.

4.2.4 The Bureau's cash flow adequacy ratio of 0.6:1 compares negatively to the 1.23:1 recorded at March 2010 and is an indication that the Entity is unable to cover its main cash requirements from operations. Cash totalling \$237.61 million generated from operations was insufficient to facilitate disbursement of \$2,010.03 million in tuition loans. Repayments of \$1,437.42 million and loan receipts of \$1,192.56 million were utilised to partially offset tuition costs and other operating expenses.

5.0 Conclusion

5.1 The sustainability of the revolving loan fund is being challenged due mainly to the rapid growth in the demand for tuition financing and a sustained increase in the rate of delinquency. Major contributors are the downturn in the economy and the high rate of unemployment as well as growth in the number of new beneficiaries. To mitigate the challenges, the Bureau responded and implemented several strategies including realignment of several departments, accounting policy changes, extension of loan terms, a 'Faces of Delinquency' publication and an amnesty among other initiatives to benefit student borrowers. Notwithstanding the adverse financial out turn for the year, the Bureau remains committed to accessing additional financing to assist its borrowers as well as to increase efficiency in the delivery of services to its clients.


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