

MINISTRY PAPER #27/15

STUDENTS' LOAN BUREAU
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR
THE YEAR ENDED MARCH 31, 2013

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 2012/13 financial year.

1.2 The SLB was established by the Students' Loan Fund Act (SLFA) and operates a Revolving Fund (Fund) which provides funding for eligible students pursuing tertiary level training. In addition to providing affordable financial solutions, the focus of the Bureau has been the sustainability of the Fund and the expansion of services to those most in need of assistance through the Grant-in-Aid program.

1.3 During 2012/13, the Government of Jamaica (GOJ) supported SLB by way of grants, as well as the facilitation of collaborative efforts that secured loan funding for tuition disbursements. The growth in demand, coupled with the increasing annual tuition fees charged to students, continued to challenge SLB's ability to secure an adequate level of funding to disburse loans.

2.0 Disclosures

2.1 Auditors' Report

2.1.2 The auditors Ernst & Young (EY), 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. EY's findings indicated that the audit evidence obtained was sufficient and appropriate to provide a basis for their opinion. The auditors also indicated that the financial statements were prepared in accordance with the International Financial Reporting Standards and give a true and fair view of the state of affairs of the Bureau.

2.2 Compensation Packages for Senior Executives and Directors

2.2.1 Pursuant to the Second Schedule (Part 1) of the Public Bodies Management and Accountability Act, details of the compensation packages for the executive managers and directors are included in the Annual Report. For the 2012/13 financial year, the emoluments paid to nine (9) senior executives ranged between \$4.52 million and \$10.56 million. Fees for the Directors of the Board amounted to \$0.84 million.

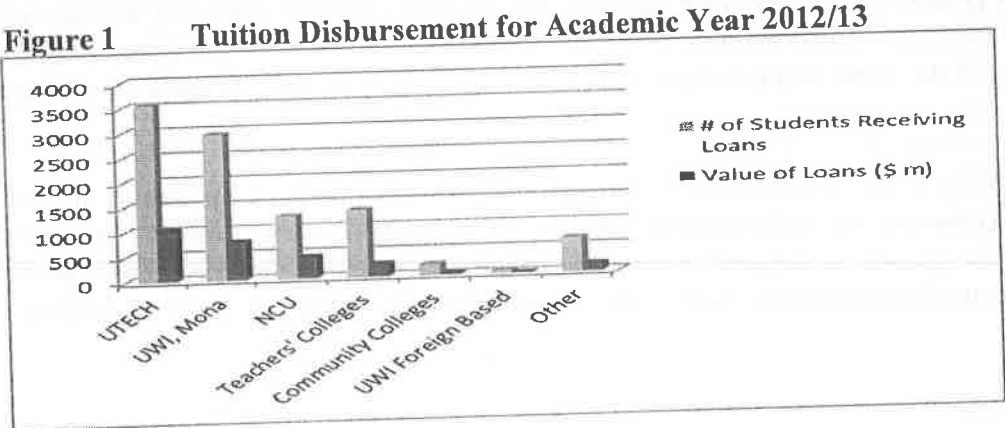
3.0 Operational Review

3.1 Disbursements (Academic year)

3.1.1 SLB was the financial institution of choice for thousands of Jamaican students who required assistance in covering the cost of tuition fees. The application period for the 2012/13

academic year began in February 2012 and was extended (beyond October 2012) to respond to an increase in the demand for loans. A total of 16,476 applications were received (2011/12: 13,000) and 15,885 (2011/12: 12,017) approved. Of the loans approved, 9,061 or 55% were from new applicants and 7,415 or 45%, returning applicants, all enrolled in the forty-five (45) approved tertiary institutions.

3.1.2 Figure 1 shows the number and value of loans disbursed by institutions during the academic year. It should be noted that of the \$3,365 million (2011/12: \$2,763 million) disbursed to 11,699¹ students, those from the University of Technology (UTECH) benefitted from \$1,187.10 million or 35%, University of the West Indies (UWI), \$955.40 million or 28% and Northern Caribbean University (NCU), \$521.60 million or 16%. Funds disbursed to the teachers' colleges accounted for \$327 million or 10%, while the combined group of community colleges and other institutions accounted for \$374.40 million or 11% of total loans disbursed.



3.1.3 SLB also provided grant funding to students in need of additional financial assistance through the GOJ's Grant-in-Aid program. Accordingly, grants totalling \$158 million were disbursed to 3,632 students and represented an increase of \$28.41 million or 629 additional students, compared to the prior year.

3.1.4 SLB experienced several challenges that required action and/or early resolution to ensure the achievement of its mandate and continued operations on a sustainable basis. Chief among the issues was insufficient funds for disbursement of approved loans. In order to address growth in demand and increasing tuition fees, the SLB had to place increased reliance on borrowed funds. In this regard, additional loan financing was obtained from the Caribbean Development Bank (J\$491.41 million)² and PetroCaribe Development Fund (US\$12 million/J\$1,186.64 million) to supplement loan reflows, as well as \$350 million from the Government.

3.1.5 SLB also had to contend with a culture of entitlement by borrowers. The effects of unemployment and underemployment facing many of SLB beneficiaries whose loans are due for repayment also impacted negatively, SLB's operations. In order to mitigate the challenges, the Bureau implemented several measures to improve/strengthen collections. These included agreements with licensed credit bureaus, loan restructuring, publication of names and faces of delinquent beneficiaries, partnerships with public and private sector stakeholders, as well as the

¹ After cancellations

² Continued drawdown on US\$20 million CDB facilities

increased use of debt collectors/bailiffs and litigation. Policy changes and initiatives included the implementation of salary deduction orders for beneficiaries employed in the Public Sector. SLB also offered rebates and waivers of charges and fees as incentives for early closure of loans and encouraged beneficiaries and/or their parents to exercise the option to commence repayment during the 'in school years' or moratorium period. The Bureau's efforts resulted in reduced level of delinquency and hence negligent borrowers accounted for 18% of the total loan portfolio at the end of 2012/13 (2011/12: 23%).

4.0 Financial Overview

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

Particulars	2012/13	2011/12	Variance 11/12 - 12/13	
			\$	%
Income				
Interest on Student Advances	803.93	721.87	82.06	11%
Interest on Investments	16.09	68.92	(52.83)	-77%
Other Income	129.06	154.70	(25.64)	-17%
Government Grant	232.40	125.59	106.81	85%
Total Income	1,181.48	1,071.08	110.40	10%
Expenses				
Salaries and Related Costs	162.40	174.74	12.34	7%
Bad Debt expense	595.33	544.10	(51.23)	-9%
Depreciation	20.44	12.71	(7.73)	-61%
Grant-in-aid	131.41	125.54	(5.87)	-5%
Other expenses	78.60	83.22	4.62	6%
Finance Cost	179.54	44.72	(134.82)	-301%
Total Expenses	1,167.72	985.03	(182.69)	-19%
Net Surplus	13.76	86.05	(72.29)	-84%

4.1 Profitability and Expenses

4.1.1 Table 1 indicates that at the end of 2012/13, SLB recorded a net surplus of \$13.76 million, a reduction of \$72.29 million on the \$86.05 million generated in 2011/12. The reduced financial performance resulted directly from increased net finance cost due to increased access of loans as the SLB sought to replenish its pools of funds used to make loans to students. Increased bad debt expense also contributed to the reduced surplus and is reflective of the Bureau's high delinquency rate. The resulting cost increase impacted negatively SLB's expense to income ratio which moved to 99% from 92%.

4.1.2 Income


4.1.3 SLB's operations generated total income of \$1,181.48 million (2011/12: \$1,071.08 million) generated in the prior year. The improvement of \$110.40 million was influenced primarily by an additional \$82.06 million earned in interest on student advances, which totalled \$803.93 million (2011/12: \$721.87 million). In addition, grant income from GOJ was \$106.81 million higher than the previous year. The aforementioned were partially negated by lower interest income on investments of \$52.83 million due to reduced rates and a smaller portfolio. Notably, the Bureau earned a combined \$129.06 million (2011/12: \$154.70 million) from fees, penalty charges and bad debts recovered during the period.

5.0 Balance Sheet

5.1 SLB's operations remained solvent and net worth of \$6,615.75 million was an improvement of \$380.34 million on that at the end of 2011/12. Total assets rose by \$2,111.87 million, impacted chiefly by the increased loan portfolio. Meanwhile, liabilities rose by \$1,731.53 million to \$4,796.95 million, given the increased borrowing. Notwithstanding the improved solvency level, it is of note that the allowance for impairment loss at the end of 2012/13 totaled \$1,720 million (14% of loans, interest, penalty and other charges receivable), which if not managed effectively will impact the Bureau's solvency.

6.0 Conclusion

6.1 SLB's pivotal role in financing tertiary education in Jamaica continued with increased lending. However, the sustainability of the Fund is threatened due mainly to the rapid growth in the demand for and cost of tuition financing and the significant rate of delinquency. This is partially attributed to the effects of unemployment and underemployment facing some borrowers. In response, the Bureau successfully implemented several initiatives to mitigate some of the challenges. In future periods, more fundamental changes are being contemplated to ensure that SLB can achieve its mandate and continue to operate on a sustainable basis.



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