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3 July 2007

Dear Frank

## Student Loans – Phase 5.4

Further to your e-mail of 27 June 2007 we have carried out projections of the loan system requested under phase 5.4 and illustrated our results in the Appendix to this letter. For further details on the data and assumptions underlying our projections please see our letter dated 20 June 2007. (We have ceased work on phase 5.2 and will not start work on phase 5.3 as we understand that these are no longer required.)

I have set out in the table below a summary of the loans systems illustrated in the Appendix together with a summary of the system previously illustrated in our letter dated 26 June 2007. The monetary amounts quoted are all in 2006/07 terms.

	Appendix to 26 June 2007 letter	Appendix to this letter
<b>Annual Loan</b>	£2,722 p.a. increasing in line with inflation (ie £3,000 pa in monetary terms in September 2009). Loan ceiling of £21,500 increasing in line with inflation. Loans commence September 2009.	£2,722 p.a. increasing in line with inflation (ie £3,000 pa in monetary terms in September 2009). Loan ceiling of £21,500 increasing in line with inflation. Loans commence September 2009.
<b>Allocation of Loan (PC = Parental Contributions)</b>	Loan towards Fees (capped at Fee amount if lower). PC allocated to Maintenance first with any residual towards remaining Fees. The States meet any remaining costs.	Loan towards Fees (capped at Fee amount if lower). PC allocated to Maintenance first with any residual towards remaining Fees. The States meet any remaining costs.
<b>Issuer of Loan</b>	Education Department	Clearing banks
<b>Repayment Term</b>	12 years	12 years
<b>Interest rate charged to students</b>	5.5% p.a. pre graduation 6.5% p.a. post graduation	5.5% p.a. pre graduation 6.5% p.a. post graduation
<b>Interest rate charged to Department</b>	5.75% pa	5.75% pa
<b>Department Budget</b>	£6.0m pa with flexible overspend from 2006/07 until end 2008/09.	£6.0m pa with flexible overspend from 2006/07 until end 2008/09.
<b>Administration Expenses</b>	£250 per new student, £160 p.a. per existing student (increasing in line with inflation)	No expenses for Department as loans administered externally
<b>Base rate Assumption</b>	5.5% p.a.	5.5% p.a.
<b>Inflation Assumption</b>	3.3% p.a.	3.3% p.a.

*This letter was prepared for the benefit of the States' Education Department and relies on information provided by them which we may not have independently verified. The letter should be considered in conjunction with our other related letters and reports and the assumptions made and limitations given. BWCI Consulting Limited do not accept or assume any responsibility to anyone other than the States' Education Department.*

Under this loans system students are awarded the same level of loan as that previously illustrated but the loans are issued by a clearing bank rather than the Education Department. This means that there is no income or expenditure in respect of loans for the States and the Department avoids the expense of administering the loans system.

The graphs in the appendix show that, without the expenses of the loans system, the Department's expenditure is projected to be within their budget for the whole projection period. Therefore we have assumed that the Department only takes from Treasury and Resources on a "needs basis" and does not use its full budget allocation to build up a reserve fund. In our projections we have not made any allowance for additional expenditure that may be required from the Department should students default on their loan repayments to the clearing bank.

Please contact me if you have any questions on these illustrations.

Yours sincerely

**BWCI Consulting Limited**

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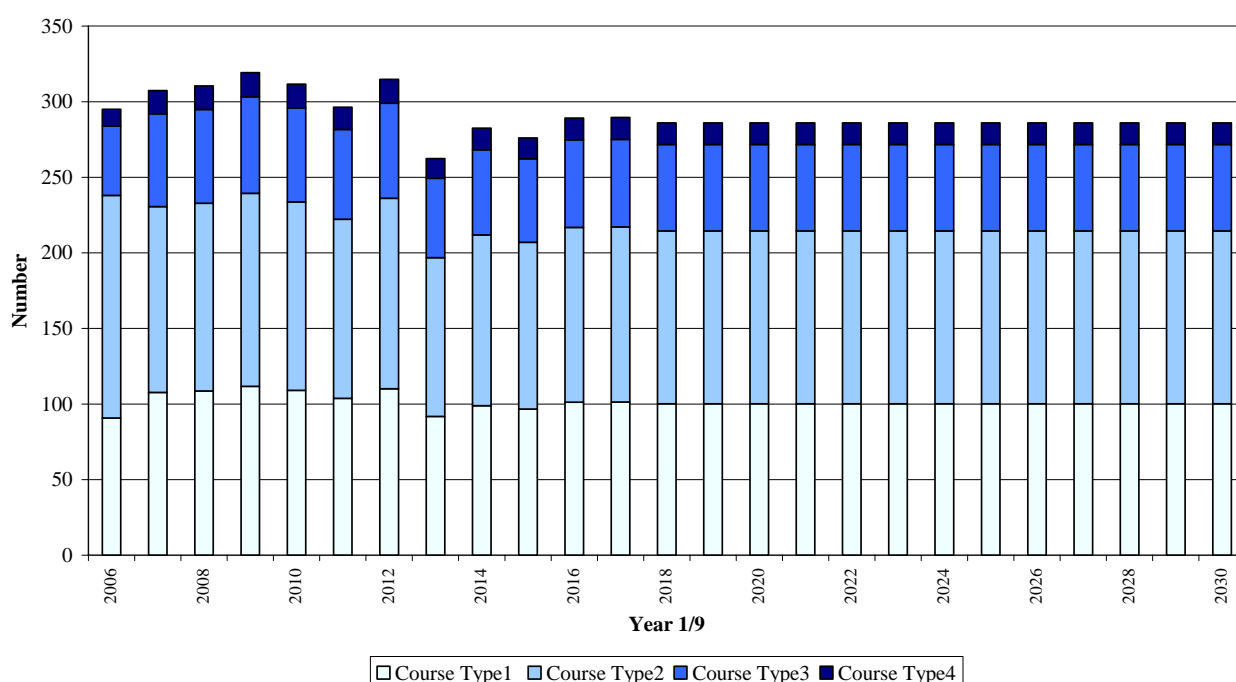
### Appendix

This appendix illustrates our projection graphs for Phase 5.4. It should be read in conjunction with our letter dated 3 July 2007. We have shown fewer graphs than in previous letters because some are not relevant to a loans system which is administered externally.

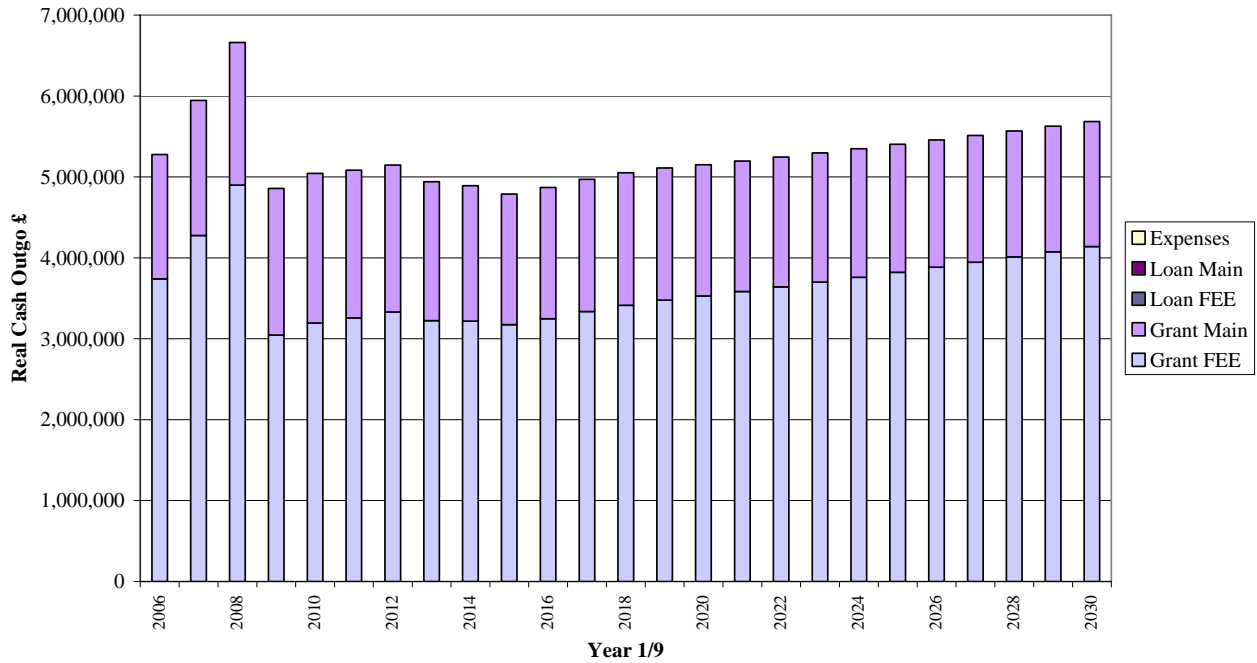
We have set out in the table below our estimate of the States' expenditure over the next seven years, both in expected actual ("nominal") amounts and real amounts allowing for inflation at 3.3% p.a. As the loans are assumed to be issued by a third party there is no States' income or expenditure in respect of loans.

Year	2006	2007	2008	2009	2010	2011	2012
Real Outgo (£m)	5.3	6.0	6.7	4.9	5.0	5.1	5.1
Nominal Outgo (£m)	5.3	6.2	7.1	5.4	5.7	6.0	6.2

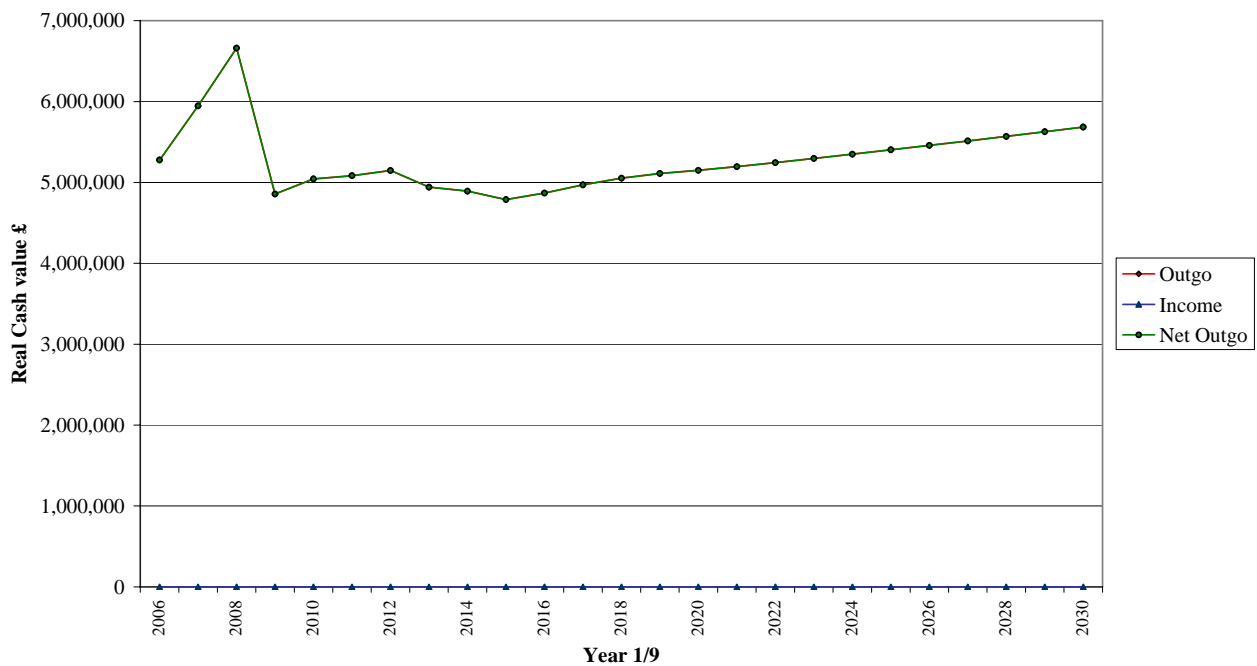
Number of Students joining each year



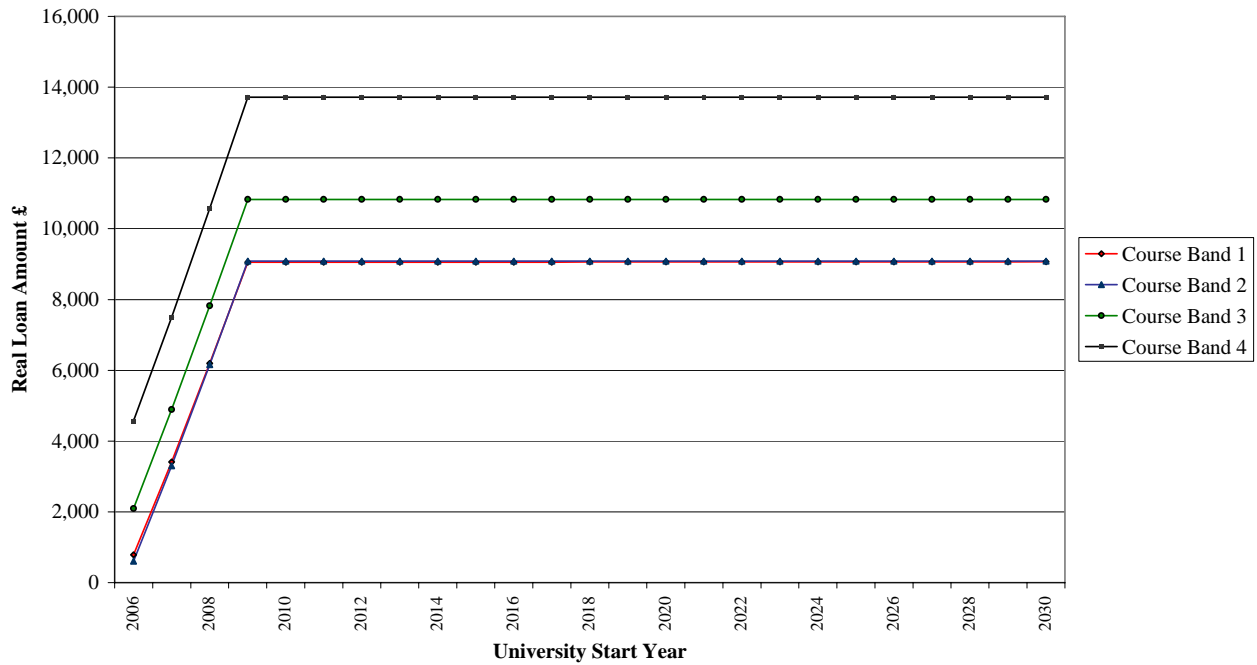
## States' Expenditure



## Net Expenditure

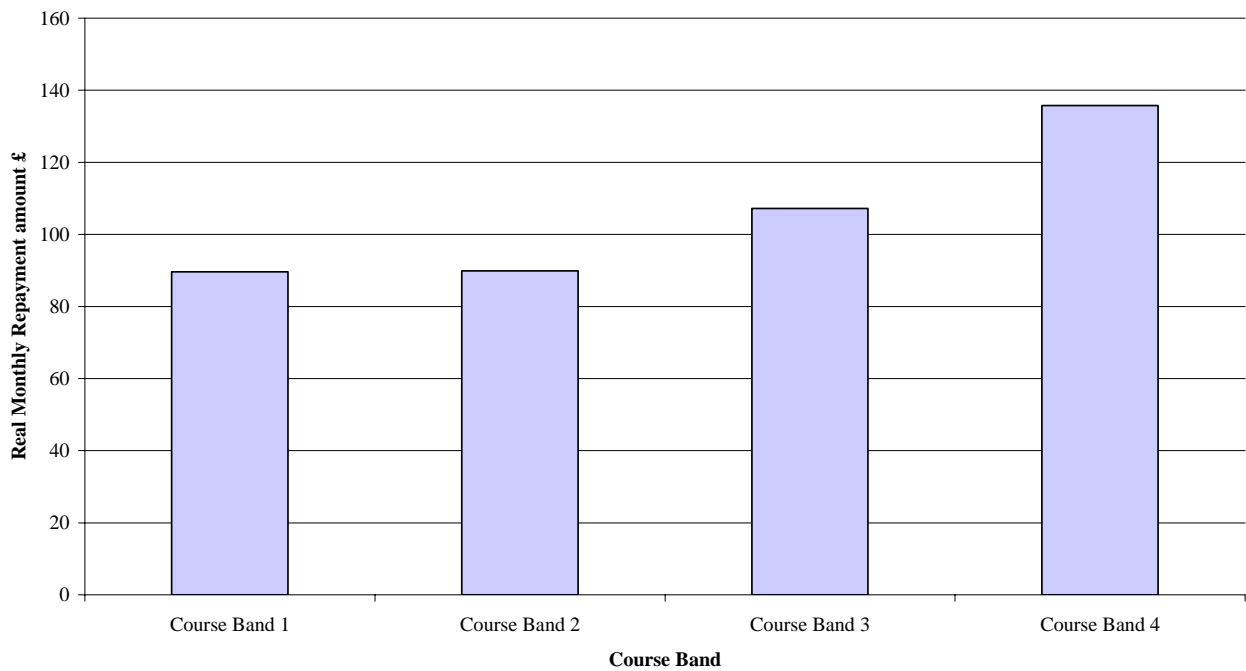


**Average Loan Amounts on Graduation**



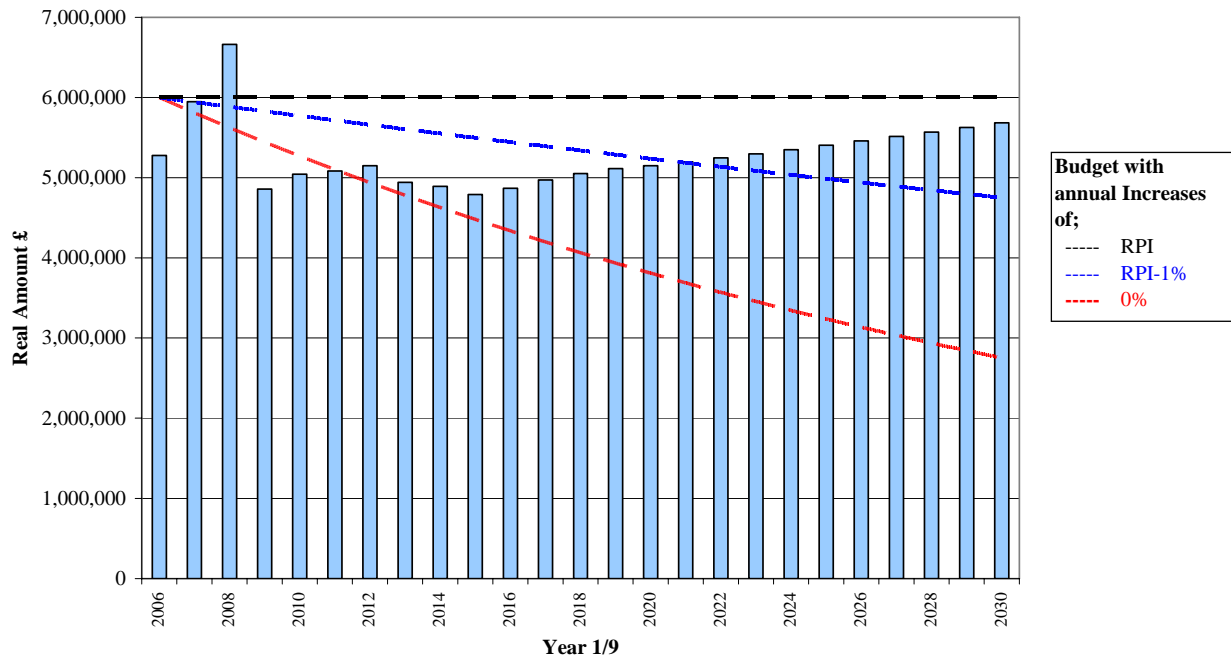
[Loan amounts owed to the clearing bank by the students]

**Average Repayment Amount**



[Repayment amounts due to the clearing bank from students]

## Department's Expenditure on Grants and Expenses Vs Budget



This graph shows the Department's expenditure on grants and expenses relative to a budget of £6.0m p.a. in real terms. However, we have allowed for the Department to be granted a flexible overspend from 2006/07 until 2008/09 in our projections.