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20 July 2007

Dear Frank

## Student Loans – Phase 5.5

Further to your e-mail of 16 July 2007 we have carried out projections of the loan system requested under phase 5.5 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.

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 3 July 2007. The monetary amounts quoted are all in 2006/07 terms.

	<b>Appendix to 3 July 2007 letter</b>	<b>Appendix to this letter</b>
<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.	£2,268 p.a. increasing in line with inflation (ie £2,500 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>	Clearing banks	Clearing banks
<b>Repayment Term</b>	12 years	7 years
<b>Interest rate charged to students</b>	5.5% p.a. pre graduation 6.5% p.a. post graduation	6.5% p.a. pre graduation 6.5% p.a. post graduation
<b>Interest rate charged to Department</b>	5.75% p.a.	5.75% p.a.
<b>Department Budget</b>	£6.0m pa with flexible overspend from 2006/07 until end 2008/09. Taken on a “needs basis”	£6.0m pa with flexible overspend from 2006/07 until end 2008/09. Taken on a “needs basis”
<b>Administration Expenses</b>	No expenses for Department as loans administered externally	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.
<b>Cost of Guarantee</b>	No Allowance	5% of students assumed not to make any repayments (see below)

*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.*

For this projection we have made an allowance for 5% of students not to make any loan repayments. We have assumed that their loan continues to accrue interest and at the end of the repayment term (7 years), the States are required to repay the loan in full. This guarantee cost for the States is shown as white bars in the graph of States' expenditure. In reality it is unlikely that the clearing bank will allow an account to remain unpaid for 7 years and the States would probably be required to take responsibility for the loan earlier. This is an area where we could refine our modelling and further investigation could be made into the level of expected non-recoveries. If it would be helpful we could provide projections on a range of assumptions.

In line with our previous projections, 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 your e-mail of 16 July you queried the graph of the average repayment amounts illustrated in our letter of 26 June. This graph showed the average repayment period split by course band, not by length of course. Under this type of loan structure, the loan outstanding at the end of university and hence the monthly repayment, is more dependent on the length of course rather than the course band. For example, course band 4 students in the data have course lengths of between 2 and 7 years and the repayment figure illustrated is an average of the monthly repayments for these different course lengths.

The table below is a different representation of the repayment information, illustrating the monthly repayment split by course length. These figures assume a 7 year repayment period and are quoted in 2006/07 monetary terms.

<b>Course Length</b>	<b>Loan on Graduation</b>	<b>Monthly Repayment</b>
3	£7,234	£110
4	£9,797	£149
5	£12,438	£189
6	£15,162	£230

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

Yours sincerely

**BWCI Consulting Limited**

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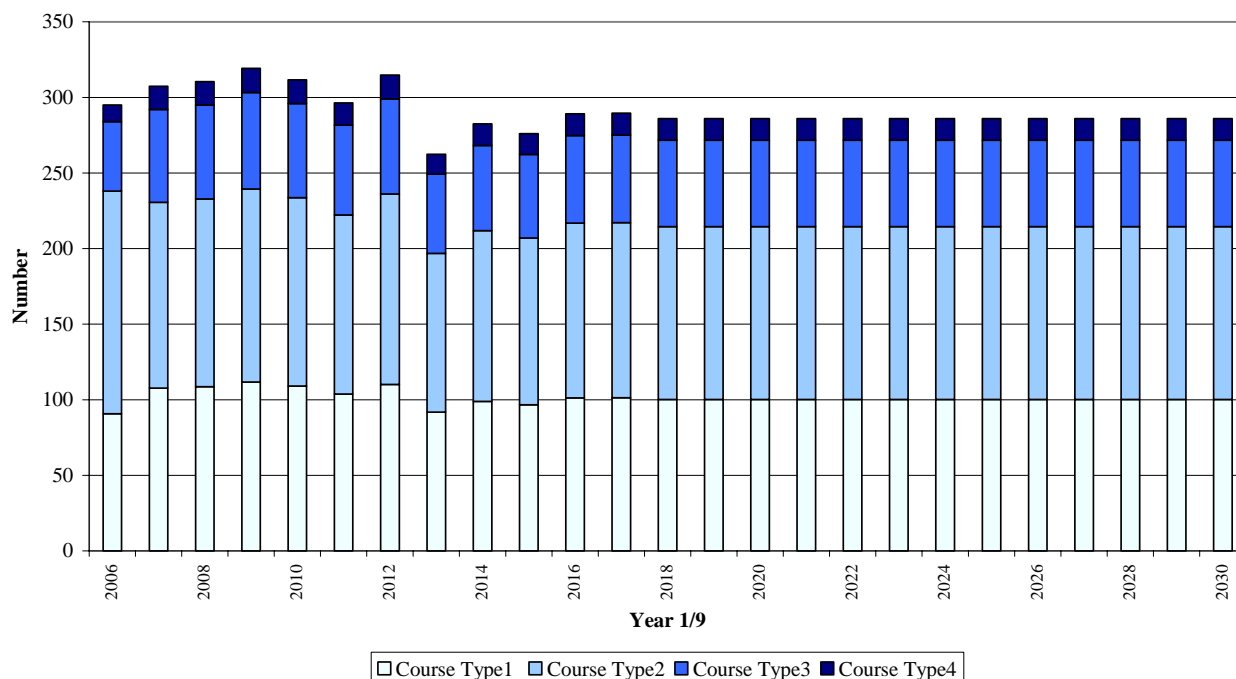
### Appendix

This appendix illustrates our projection graphs for Phase 5.5. It should be read in conjunction with our letter dated 20 July 2007.

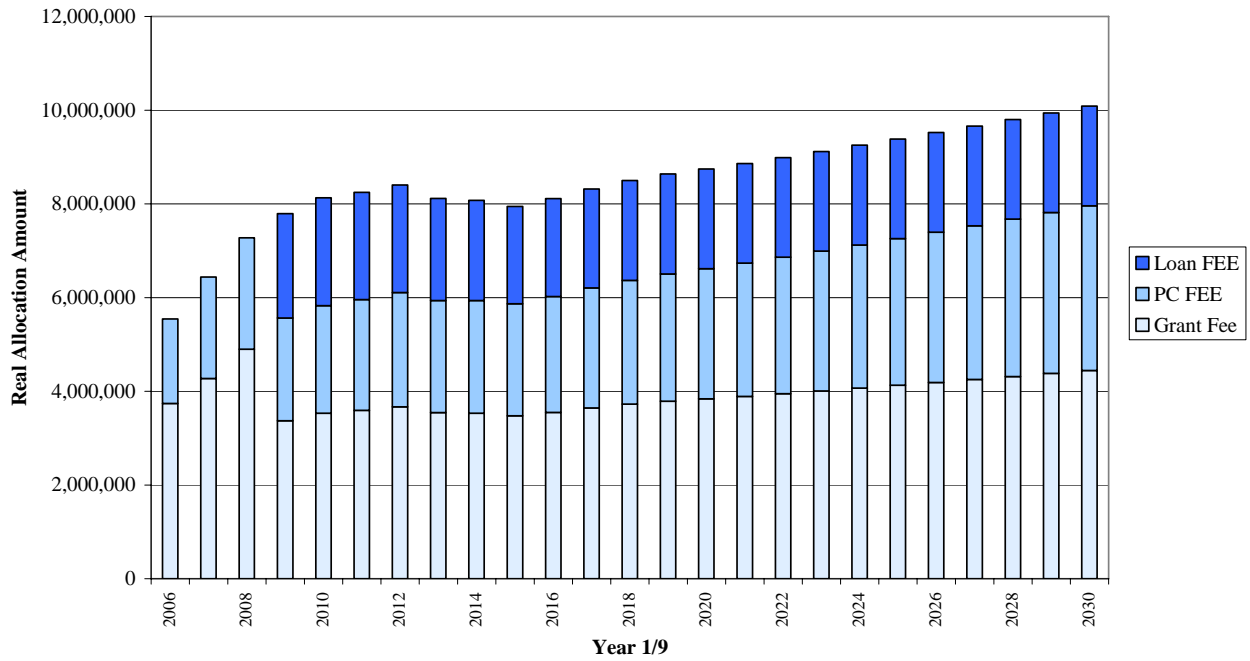
We have set out in the table below our estimate of the States’ expenditure over the next seven years, both in expected actual (“nominal”) amounts and real amounts allowing for inflation at 3.3% p.a. As the loans are assumed to be issued by a third party there is no States’ income or expenditure in respect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

Year	2006	2007	2008	2009	2010	2011	2012
Real Outgo (£m)	5.3	5.9	6.7	5.2	5.4	5.4	5.5
Nominal Outgo (£m)	5.3	6.1	7.1	5.7	6.1	6.4	6.7

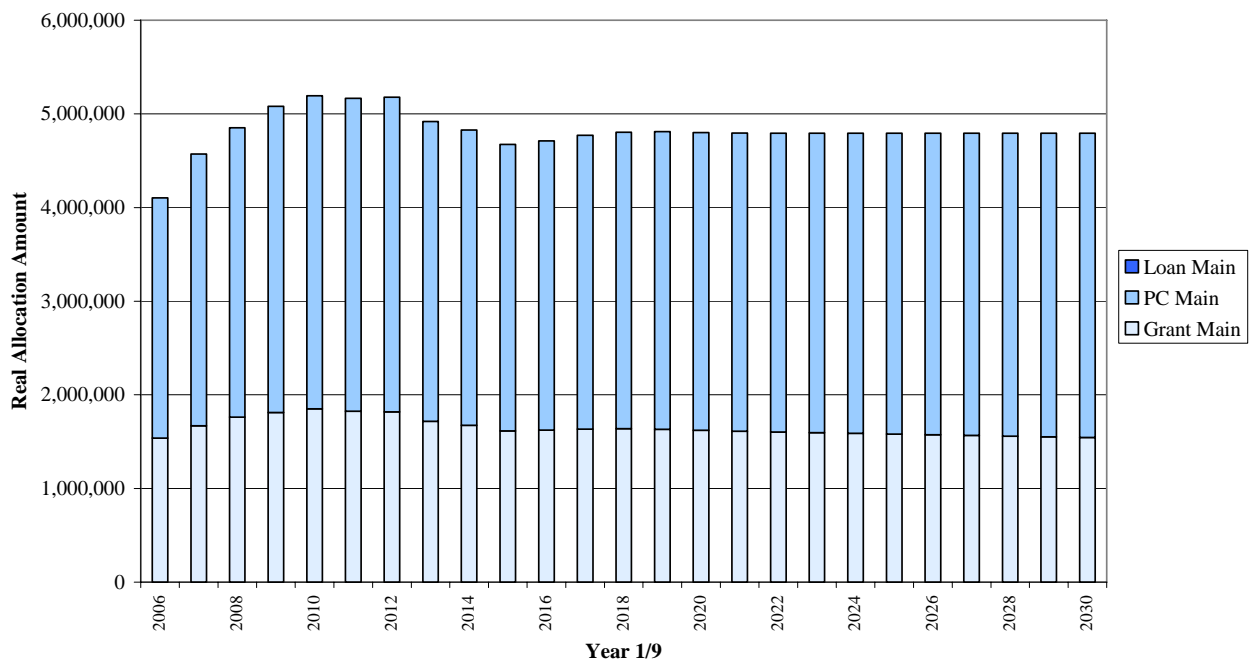
**Number of Students joining each year**



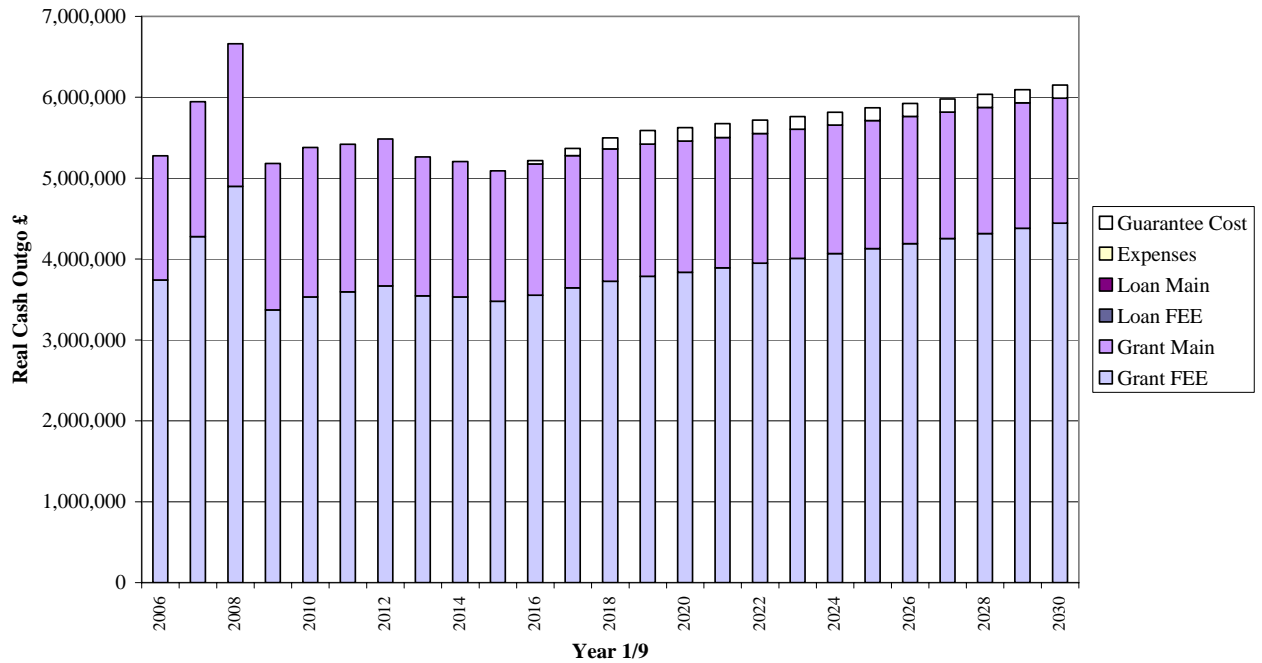
## Allocation of Course Fee



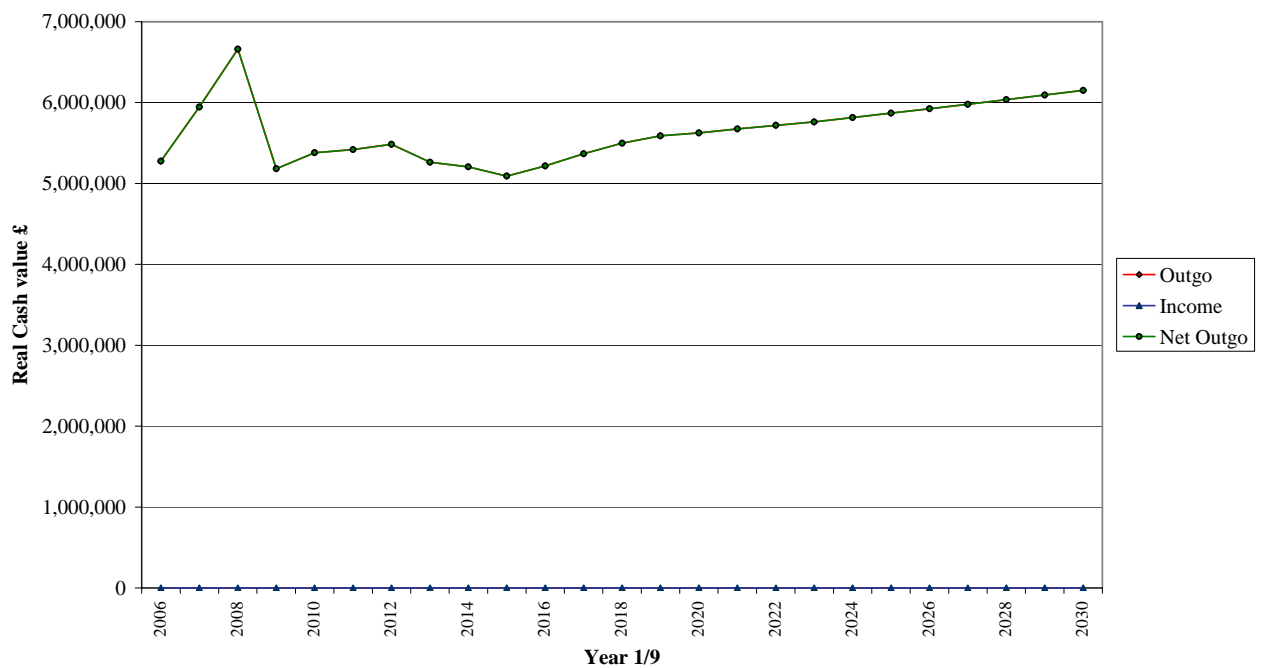
## Allocation of Maintenance Allowance



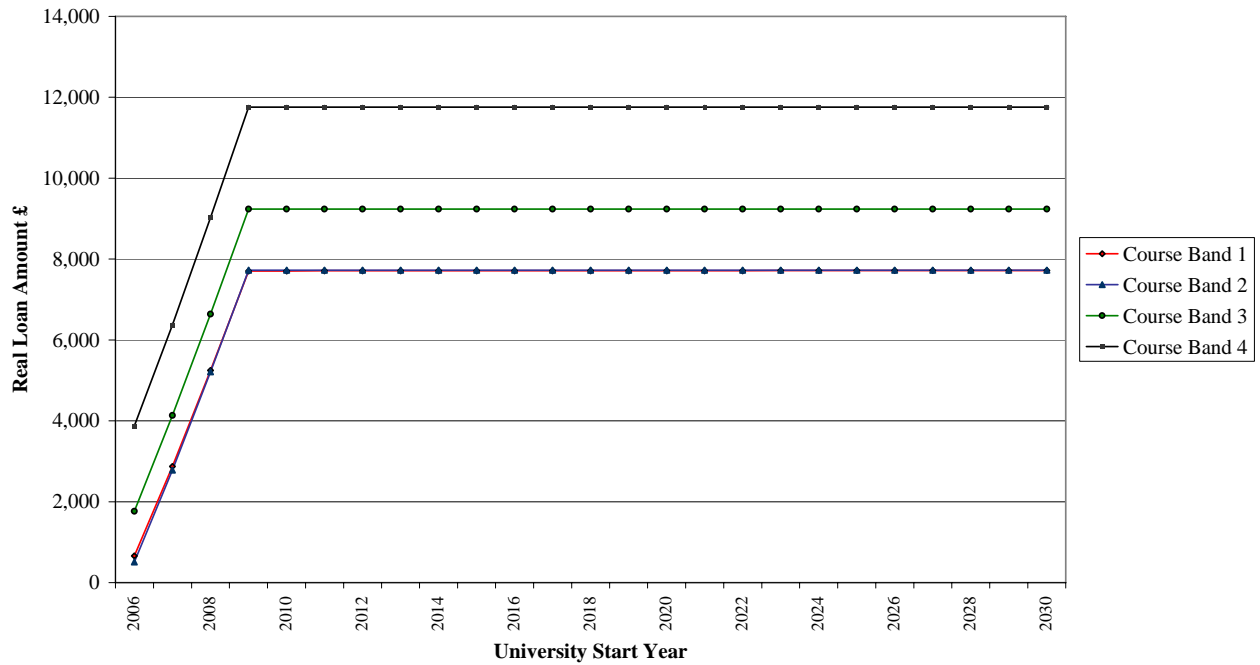
## States' Expenditure



## Net Expenditure

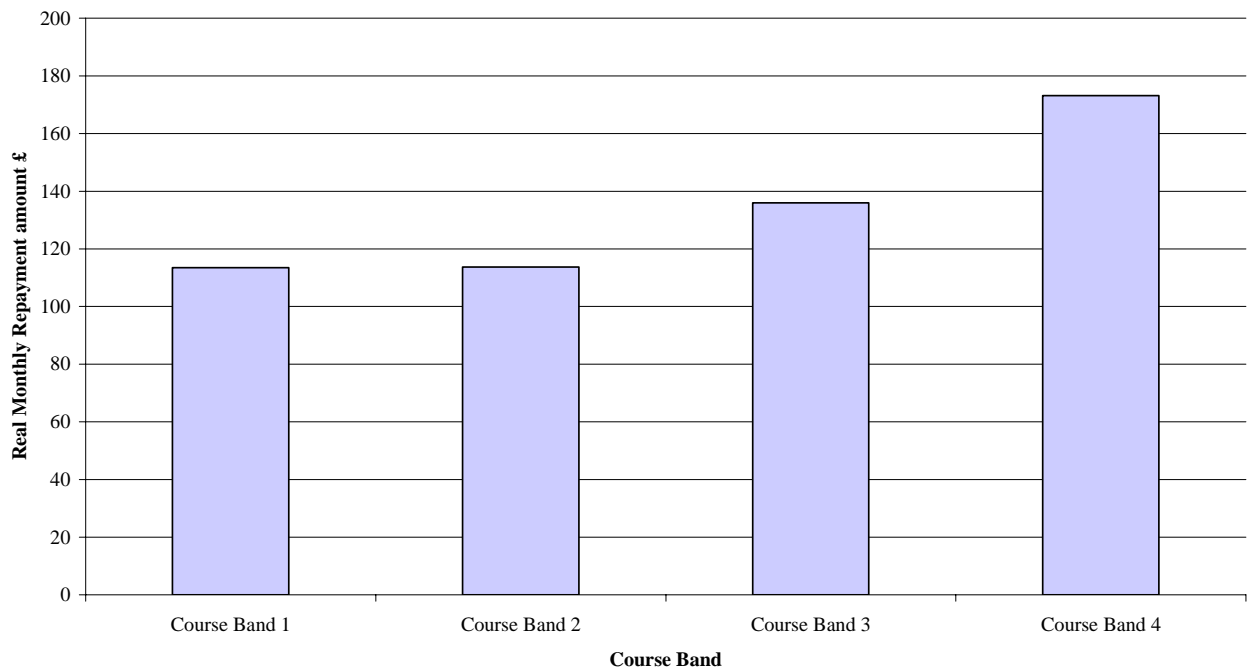


**Average Loan Amounts on Graduation**



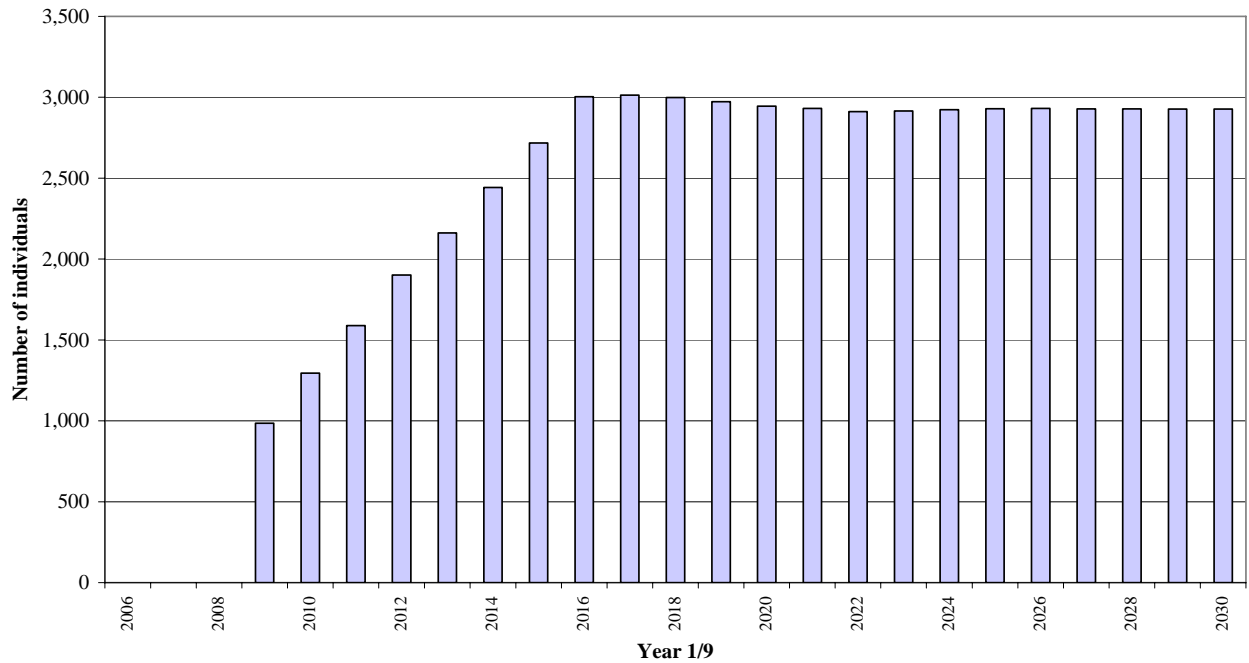
[Loan amounts owed to the clearing bank by the students]

**Average Repayment Amount**

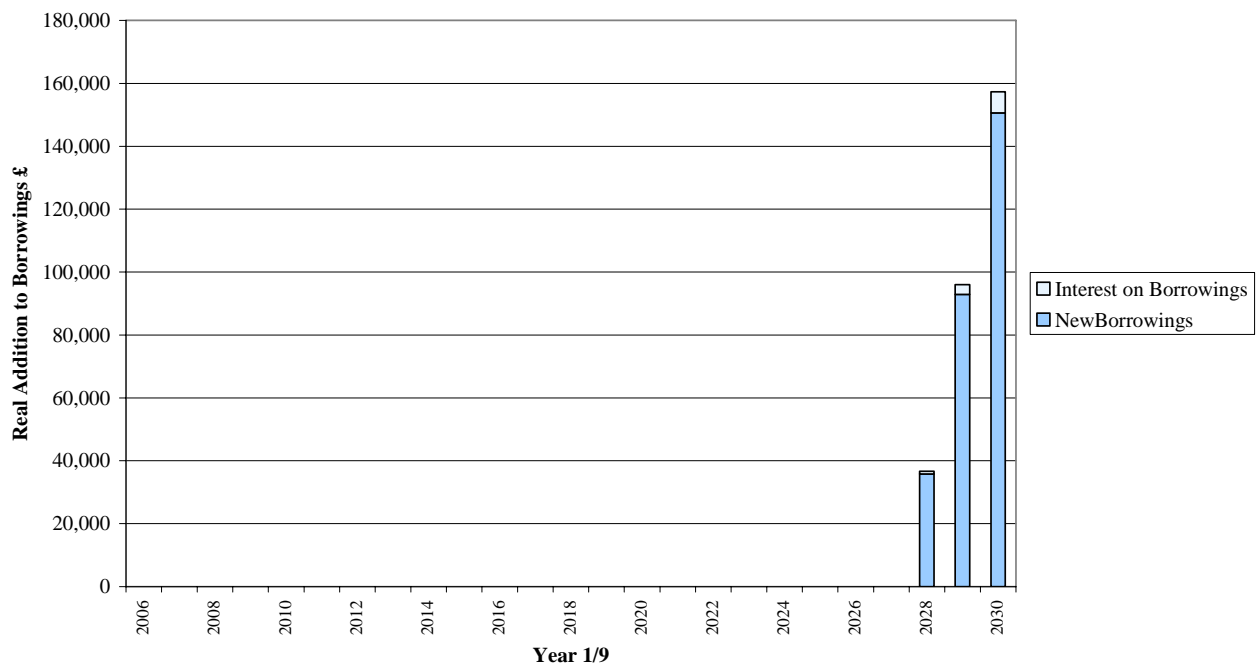


[Repayment amounts due to the clearing bank from students]

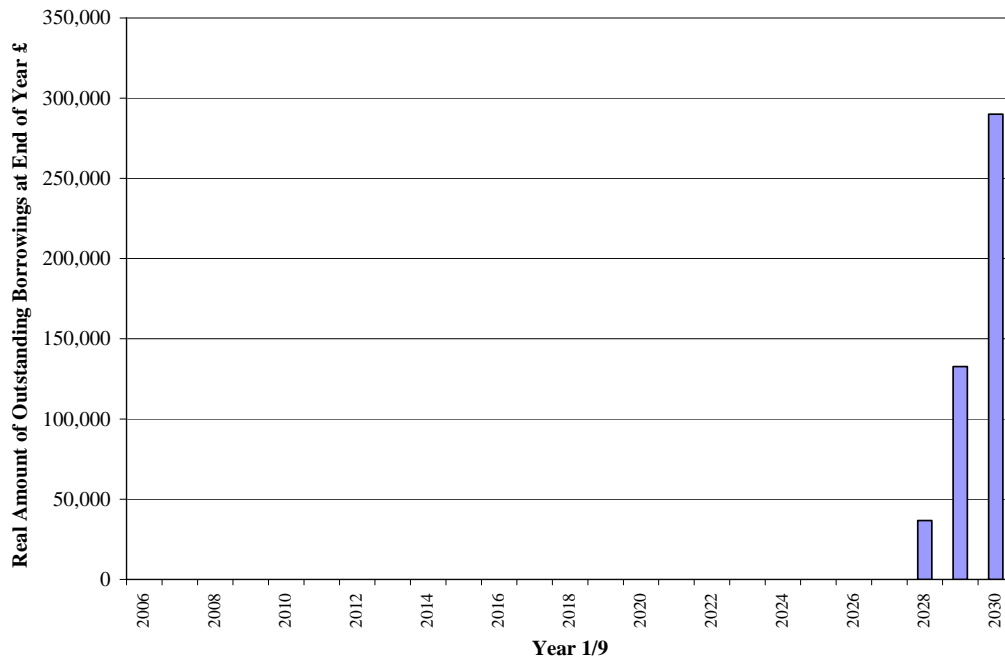
**Individuals with an outstanding loan**



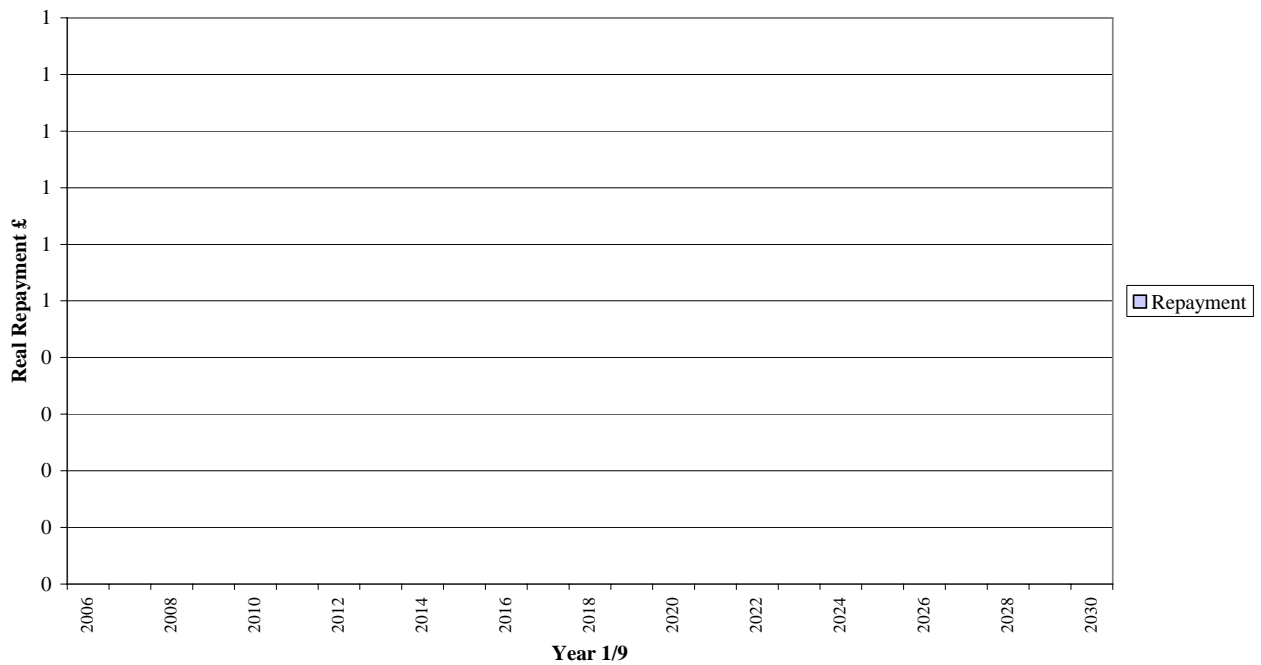
**Department's Annual Additions to Borrowings**



**Department's Outstanding Borrowings (including interest)**

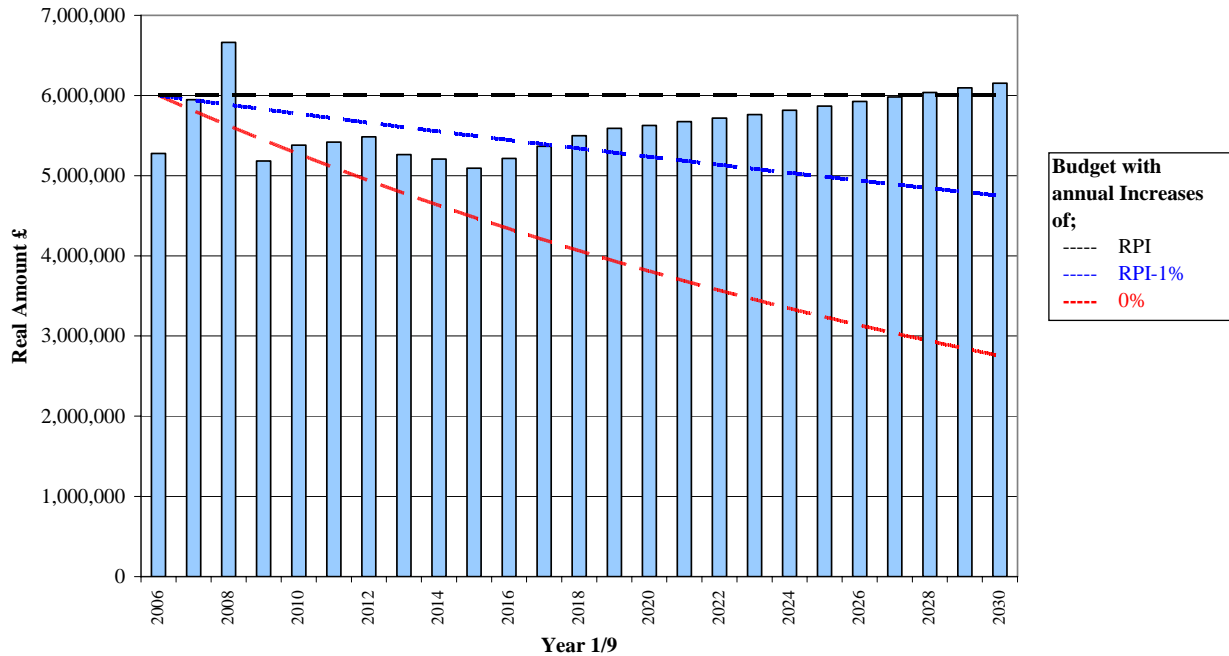


**Department's Repayments on Borrowings**





## Department's Expenditure on Grants, Expenses and Guarantee Cost Vs Budget



This graph shows the Department's expenditure on grants, expenses and guarantee cost 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.