

**STUDENT LOAN CORPORATION OF
NEWFOUNDLAND AND LABRADOR**

ANNUAL REPORT 2004-05

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Chairperson's Message

September 13, 2005

Honourable Tom Hedderson
Department of Education
West Block, Confederation Building
P.O. Box 8700
St. John's, NL
A1B 4J6

Dear Minister:

I am pleased to submit the 2004-05 Annual Report of the Student Loan Corporation of Newfoundland and Labrador. This report covers the period of April 1, 2004 to March 31, 2005. By way of this letter, signed on behalf of the Board of Directors of the Corporation, I am indicating the Board's accountability for the actual results reported herein.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce Hollett". The signature is written in a cursive style with a large initial "B".

Bruce Hollett
Chairperson

Overview

AUTHORITY AND ADMINISTRATION

The Student Loan Corporation of Newfoundland and Labrador (SLCNL) was established on March 30, 2004 pursuant to the *Student Financial Assistance Act*. The affairs of the SLCNL are managed by a Board of Directors responsible to the Minister of Education.

MANDATE

The Corporation was established to provide and collect on loans and manage the debt and investment portfolio of the Newfoundland and Labrador Student Financial Assistance Program (NLSFAP).

LINES OF BUSINESS

The SLCNL operates the following lines of business:

- Portfolio management of the NLSFAP;
- Debt and investment services for the portfolio; and
- Default collection services for the NLSFAP – including collection activities for defaulted loans of the SLCNL and the Department of Education.

EMPLOYEES

As at March 31, 2005, the SLCNL had 12 employees including: a Director of Portfolio Management, a Manager of Financial Operations, 8 Portfolio Collection Officers, an Administrative Officer and a Clerk-Typist. In February 2005, the SLCNL hired 5 new Portfolio Collection Officers.

LOCATION

The location and contact information for the SLCNL is:

Confederation Building, 4th Floor, West Block
P.O. Box 8700, St. John's, NL A1B 4J6
Phone: 729-6465 (local) or 1-877-520-8800 (long distance)
Fax: 729-7481

Shared Commitments

DEPARTMENT OF EDUCATION

The SLCNL is responsible to the Minister of Education and operates under the *Student Financial Assistance Act* and Regulations. The Student Financial Assistance Program also operates under this legislative framework. The SLCNL works closely with the Student Financial Services Division within the Department to ensure financial administration mirrors program delivery. The SLCNL also works closely with the Finance Division of the Department of Education in relation to the management of the Department's defaulted loans portfolio, these loans are not owned by the SLCNL but are owned by Government (eg. loans in repayment prior to 1 August 2000). When Government makes Student Financial Assistance Program decisions, the financial management activities of the SLCNL are affected.

HUMAN RESOURCES AND SKILLS DEVELOPMENT CANADA

The SLCNL is involved with Human Resources and Skills Development Canada (HRSDC) via the Canada-Newfoundland and Labrador Integration Agreement. One aim of this agreement is to ensure administrative integration of the federal and provincial student loan programs which simplifies administration of loans, particularly in the repayment process. The SLCNL has worked with HRSDC to promote and enhance measures to further this direction.

The National Student Loans Service Centre (NSLSC) administers the loan process for both Governments. Under two Memorandum of Understandings, two service providers Edulinx (Public Institutions) and Resolve (Private Institutions) operate the NSLSC and provide loan administration from disbursement to repayment. It is a one-stop approach to loan management. The SLCNL works closely with the NSLSC to provide advice, direction, inquiry and issue resolution to Newfoundland and Labrador students in repaying their student loans.

CANADA REVENUE AGENCY

In February 2005, the SLCNL was one of three programs to enter into the Tax Interception Setoff program with the Canada Revenue Agency (CRA). Under this program, certain tax refunds are intercepted and used to pay down defaulted student loans. SLCNL has worked with CRA to establish a system for the implementation of this program.

Highlights and Accomplishments

ESTABLISHMENT OF THE CORPORATION

The SLCNL was established on March 30, 2004. Much work has gone into the actual creation of the SLCNL during the year including: physical location, Board of Directors, financial infrastructure, new staff, and required operating policies and procedures.

CONVERSION

The SLCNL's first focus was on the purchase of over 31,000 loans from CIBC. The SLCNL is now legal owner of these loans. The SLCNL also became a partner in the Canada-Newfoundland Integration Agreement. In this role, the SLCNL ensured the newly purchased student loans were properly transferred to the National Student Loan Service Centre for administrative management. The SLCNL has ensured that all students who have had these loans purchased were issued new lending and repayment agreements.

COLLECTION SERVICES

There has been a focus on collection efforts during the first year of SLCNL operation. In addition to increasing the complement of portfolio collection officers, the SLCNL has made strides in developing more formalized collection procedures, completed an initial review of the existing caseload breakdown, and expanded and implemented new information technology infrastructure which enhanced development of a more extensive reporting process.

NEW PROGRAMS

In 2004-05, the SLCNL, along with two other Provincial departments, implemented the CRA Setoff Program. Under this program, income taxes and GST payments are intercepted and used to pay any outstanding defaulted student loans. Participation in this program is showing promising increases in collection activities.

Outputs

PORTFOLIO MANAGEMENT AND STATISTICS

The Board of Directors for the SLCNL met three times during 2004-05 and dealt with a variety of issues including structural, policy, financial and corporate concerns. As part of the administration of the Integration Agreement, the Board oversaw the establishment of a Joint Management Committee, a Federal-Provincial Data Sharing Protocol Agreement, and conversion of over 31,000 loans from CIBC to the National Student Loans Service Centre. As part of its portfolio management activities, the Board oversaw the preparation and audit of the SLCNL 2003-04 financial statements, a conversion audit to ensure the SLCNL received all the loans purchased from CIBC, attest audits of the two service providers to ensure all service standards were being met, and the interim reporting, budget and financial management of the SLCNL.

The SLCNL manages both a current portfolio, administered by the National Student Loans Service Centre (NSLSC), and a default portfolio, administered by the SLCNL. Loans are administered by the NSLSC until they reach 9 months in arrears at which time they are transferred back to the SLCNL for internal collections.

In addition to providing financial management on the current portfolio totaling \$200.1 in student loans in repayment and in school, the SLCNL also performs collection activities and financial management of defaulted student loans owned by the Department of Education and SLCNL. The following chart provides a breakdown of each of the portfolios administered by the SLCNL.

Portfolio	1-Apr-04		31-Mar-05	
	Value (\$ in millions)	Number of Loans (rounded)	Value (\$ in millions)	Number of Loans (rounded)
Current Portfolio				
Class A (In School & In Grace)	\$91.9	13,500	\$83.1	13,300
Class B & Interest (In Repayment)	\$113.8	17,500	\$117.0	20,100
Subtotal	\$205.7	31,000	\$200.1	33,400
Defaulted Portfolios				
Department of Education	\$34.4 ¹	4,700	\$36.0	4,700
SLCNL	\$0	0	\$22.3	3,300
Subtotal	\$34.4	4,700	\$58.3	8,000
Total	\$240.1	35,700	\$258.4	41,400

(Note 1: Per Public Accounts)

During the year, approximately

- \$30.0 million in new loans were disbursed to students;
- 20,500 new loan certificates were issued to both returning and new students entering post-secondary education;
- \$14.0 million in principal and interest payments were received from students who are in repayment. Of the \$14.0 million, \$4.0 million was received in interest

- payments from students and \$10 million was received in principal payments from students;
- Accrued interest for the year totaled \$9.5 million - \$8.9 million on the Current Portfolio and \$0.6 million on the SLCNL default portfolio. A total of \$1.6 million was accrued in interest on the Department of Education's default portfolio;
 - \$7.2 million in Provincial and Federal grant payments were issued to students to assist with reducing their provincial student loans. Of this \$7.2 million, \$4.3 relates to Provincial grant payments and \$2.9 relates to Federal grant payments; and
 - \$1.5 million was paid by SLCNL to HRSDC for administrative fees.

DEBT AND INVESTMENT SERVICES

The SLCNL issued floating rate notes totaling \$213,000,000 dated March 31, 2004 which mature on September 30, 2005. These notes bear interest at the 3-month Canadian Bankers Acceptance (BA) rate plus 3 basis points. Interest is payable quarterly. The rate of interest paid by the SLCNL during the year ranged from 2.1% to 2.6%. During 2004-05, approximately \$5 million was paid in interest on the notes payable.

The SLCNL receives interest revenue on bank balances which exist during the year. During 2004-2005, approximately \$175,000 was received in interest revenue on those balances.

DEFAULT COLLECTIONS

The eight SLCNL portfolio collection officers contact defaulted students directly via telephone, mail, and e-mail to collect on outstanding debt. The CRA Setoff program and the 1-800 SLCNL contact number are mechanisms used to assist in debt collections.

The SLCNL portfolio collection officers work with defaulted students to determine a student's ability to repay their student loan debts before establishing repayment arrangements with the students and/or placing a student on the CRA Setoff program.

The following default collection outputs were achieved by year-end:

- During the 2 month initial implementation, revenues attributable to direct transfers from CRA Setoff program totaled approximately \$60,000.
- Approximately 60% of the SLCNL default caseload had been placed in the setoff program with another 20% pending review for possible interception. A further 20% are either students currently in repayment or not in active recovery (eg. deceased, permanently disabled, etc.).
- A total of 815 client calls were handled by collection officers.

- Collections for 2004-05 were approximately \$800,000, an increase of 82 percent from the approximately \$440,000 collected in 2003-04.

At year-end the following statistics were noted for the default caseload:

- Total default balance - \$58.3 million.
- Total number of accounts - over 8,000 accounts.
- Average default caseload - 1,000 cases per collector.

Opportunities and Challenges Ahead

OPPORTUNITIES

The SLCNL has a number of opportunities available to allow improvements in the financial administration of the program. These include:

- The SLCNL is currently exploring further integration opportunities with the Federal Government, expanding on the 'one-stop' student loan approach further improving services to students.
- The SLCNL is continually revising and communicating its collection policies to better serve the needs of students and the Government of Newfoundland and Labrador. Improvements in collection mechanisms, policy development and communications with new graduates regarding repayment requirements will increase awareness and assist in expanding further collections improvements.
- The CRA Setoff program, introduced in late February 2005, has helped to establish repayment agreements for loans in default. The SLCNL is hoping to expand the use of this program throughout its caseload to further improve collection receipts.

CHALLENGES

The challenges facing the SLCNL include:

- Implementation of new systems, policies, procedures and structures to support the work of the SLCNL in achieving its mandate.
- Implementation of new collection mechanisms to reduce the administration necessary for the collection of funds.
- Reaching students and ensuring they are aware of programs and services available to assist them in repaying their student loans.
- Establishing an appropriate organizational structure to support the financial management responsibilities and the collection responsibilities of the SLCNL.
- Continuing to improve the financial and other reporting requirements of the SLCNL.

Financial Statements

The audited financial statements show total revenues of \$29,233,082 and total expenditures of \$24,998,595.

As this fiscal year was very much a transition period, these results were expected.

**STUDENT LOAN CORPORATION OF
NEWFOUNDLAND AND LABRADOR**

FINANCIAL STATEMENTS

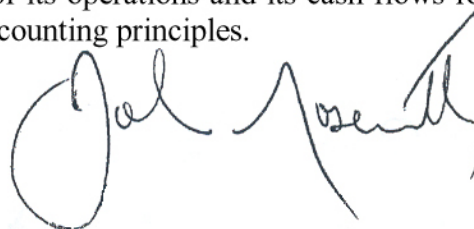
31 MARCH 2005

To the Board of Directors
Student Loan Corporation of Newfoundland and Labrador
St. John's, Newfoundland and Labrador

I have audited the balance sheet of the Student Loan Corporation of Newfoundland and Labrador as at 31 March 2005 and the statements of revenues, expenses and deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink, appearing to read "John L. Noseworthy". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

JOHN L. NOSEWORTHY, C.A.
Auditor General

St. John's, Newfoundland and Labrador
15 June 2005

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
BALANCE SHEET
31 March

2005

2004

ASSETS

Cash	\$ 4,063,817	\$ 4,999,332
Accounts receivable	-	3,015,004
Student loans receivable (Note 2)	185,229,195	176,902,984
	189,293,012	184,917,320
Capital assets (Note 3)	43,880	-
	\$ 189,336,892	\$ 184,917,320

LIABILITIES AND DEFICIT

Accounts payable and accrued liabilities	\$ 245,452	\$ 60,367
Notes payable (Note 4)	213,000,000	213,000,000
	213,245,452	213,060,367
Deficit	(23,908,560)	(28,143,047)
	\$ 189,336,892	\$ 184,917,320

See accompanying notes

Signed on behalf of the Board:



Chairperson



Director

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
STATEMENT OF REVENUES, EXPENSES AND DEFICIT
For the year ended 31 March 2005 (with comparatives for the
period 30 March 2004 to 31 March 2004)

	2005	2004
REVENUES		
Provincial grant revenue	\$ 16,624,719	\$ 2,190,106
Federal grant revenue	2,906,896	-
Student loan interest	9,525,669	751,354
Interest revenue	175,004	-
Other revenue	794	-
	29,233,082	2,941,460
EXPENSES		
Administrative fees	1,471,188	-
Amortization	851	-
Bad debt expense	8,368,655	28,798,516
Bank charges	12,299	35
Commission expense	-	95,850
Grant expense – Provincial	4,277,914	2,190,106
Grant expense – Federal	2,906,896	-
Interest expense	5,032,092	-
Interest relief expense	1,861,293	-
Miscellaneous expenses	488	-
Operating expenses	143,015	-
Salaries	390,067	-
Transition fees	533,837	-
	24,998,595	31,084,507
Excess of revenues over expenses (expenses over revenues)	4,234,487	(28,143,047)
Deficit, beginning of period	(28,143,047)	-
Deficit, end of period	\$ (23,908,560)	\$ (28,143,047)

See accompanying notes

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
STATEMENT OF CASH FLOWS

For the year ended 31 March 2005 (with comparatives for the
period 30 March 2004 to 31 March 2004)

2005

2004

Cash flows from operating activities

Excess of revenues over expenses (expenses over revenues)	\$ 4,234,487	\$ (28,143,047)
Add non-cash items		
Amortization	851	-
Bad debt expense	8,368,655	28,798,516
	12,603,993	655,469
Changes in non-cash operating items		
Accounts receivable	3,015,004	(3,015,004)
Accounts payable and accrued liabilities	185,085	60,367
Student loans receivable (Note 2)	(16,694,866)	(205,701,500)
	(890,784)	(208,000,668)
Cash flows from investing activities		
Acquisition of capital assets	(44,731)	-
Cash flows from financing activities		
Proceeds from notes payable	-	213,000,000
Increase (decrease) in cash	(935,515)	4,999,332
Cash, beginning of period	4,999,332	-
Cash, end of period	\$ 4,063,817	\$ 4,999,332

See accompanying notes

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 MARCH 2005

Authority

The Student Loan Corporation of Newfoundland and Labrador was established on 30 March 2004 under the authority of the *Student Financial Assistance Act*. The objective of the Corporation is to act as the lender for all Provincial student loans. The affairs of the Corporation are managed by a Board of Directors comprised of senior government officials.

1. Significant accounting policies

These financial statements have been prepared by the Board's management in accordance with Canadian generally accepted accounting principles. Outlined below are the significant accounting policies followed:

Capital assets

All capital assets are recorded at cost at the time of acquisition. Amortization is calculated using the straight-line method based on the expected future life of all assets as follows:

Computer software	7 years
Computer hardware	4 years

2. Student loans receivable

The student loan portfolio consists of Provincial loans issued on or after 1 August 2000 and Provincial loans issued prior to 1 August where the student was still in school and did not receive additional loans.

As at 31 March 2005 approximately 20,100 loans totalling \$116,195,273 (2004 - 17,500 loans totalling \$113,061,539) were being repaid at an average interest rate of prime plus 2.5% (Class B loans) while 13,300 loans totalling \$83,061,338 (2004 - 13,500 loans totalling \$91,888,607) were not being repaid as the student was either still in attendance at an approved education institution or was within 6 months after the end of the study period (Class A loans).

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 MARCH 2005

2. Student loans receivable (cont.)

Student loans receivable consist of the following:

	<u>2005</u>	<u>2004</u>
Loans receivable		
Class B principal	\$ 116,195,273	\$ 113,061,539
Class A principal	83,061,338	91,888,607
Loans defaulted	20,488,903	-
Interest receivable	2,650,852	751,354
	<u>222,396,366</u>	<u>205,701,500</u>
Less: allowance for doubtful accounts	(37,167,171)	(28,798,516)
	<u>\$ 185,229,195</u>	<u>\$ 176,902,984</u>

The allowance for doubtful accounts represents the Corporation's best estimate of future probable losses with respect to loans receivable. The estimation of an appropriate allowance involves significant judgment. These financial statements represent management's best estimates based on available information.

The net increase in student loans receivable during the year consists of the following:

	<u>2005</u>	<u>2004</u>
Student loans purchased	\$ -	\$ 207,140,252
Student loan interest	9,525,669	751,354
Interest relief	(1,861,293)	-
Student loan grants	(7,184,810)	(2,190,106)
Student loans disbursed	30,258,439	-
Student loan payments	(14,043,139)	-
	<u>\$ 16,694,866</u>	<u>\$ 205,701,500</u>

3. Capital assets

	<u>2005</u>			<u>2004</u>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	\$ 42,551	\$ 669	\$ 41,882	\$ -
Computer hardware	2,180	182	1,998	-
	<u>\$ 44,731</u>	<u>\$ 851</u>	<u>\$ 43,880</u>	<u>\$ -</u>

STUDENT LOAN CORPORATION OF NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 MARCH 2005

4. Notes payable

	<u>2005</u>	<u>2004</u>
Issue of floating rate notes dated 31 March 2004 maturing 30 September 2005 and bearing interest at the 3-month Canadian Bankers' Acceptance rate plus 3 basis points, payable quarterly.	\$ 213,000,000	\$ 213,000,000

5. Related party transactions

The Province unconditionally guarantees the principal and interest outstanding on the notes payable of \$213,000,000.

6. Economic dependence

As a result of its reliance on the Government of Newfoundland and Labrador to address the future funding requirements of the student loans program, the Corporation's ability to continue is dependent upon the decisions of Government.

7. Financial instruments

The Corporation's short-term financial instruments recognized on the balance sheet consist of cash, and accounts payable and accrued liabilities. The carrying values of these instruments approximate current fair value due to their nature and short-term maturity associated with them.

The Corporation's long-term financial instruments recognized on the balance sheet consist of student loans receivable and notes payable. The student loans receivable are reported at cost with provision being made for any decline in their value. Therefore, no further credit risk exists relating to these loans. The Corporation's notes payable is at a floating rate determined by the 3-month Canadian Bankers' Acceptance rate plus 3 basis points, maturing in September 2005. This may subject the Corporation to interest rate risk caused by changes in the interest rate. The carrying values of these long-term financial instruments approximate their current fair value.

8. Income taxes

The Corporation is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

9. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

