

A LOAN SYSTEM FOR CHILEAN HIGHER EDUCATION STUDENTS



Marcelo von Chrismar
May 2008

Background

General Figures



Chilean Population	16,000,000
2007 estimated GDP Billion of Dollars	165
GDP/per capita in US\$ (purchasing power parity)	13,000
Youth 18 -25 years old	2,000,000
Students in Higher Education	700,000
Rough approximation of coverage	35%
DuocUC 2nd largest vocational institution in Chile	46.300 students
	10 Campuses
	69 Careers

Background of Chilean Higher Education

The Constitutional Statutory Law of Education (LOCE)

- The Higher Education System is structured in three differentiated levels, which have not managed to articulate well:
 - Universities** → Academic Degrees (Bachelor, Master and Doctor) and every professional diploma.
 - Vocational Colleges IP** → Professional Diploma (does not require an academic degree).
 - Technical Training Centers CFT** → Higher level Technician Diploma.



Background of Vocational Education in Chile

Distribution of students: per quintiles household income

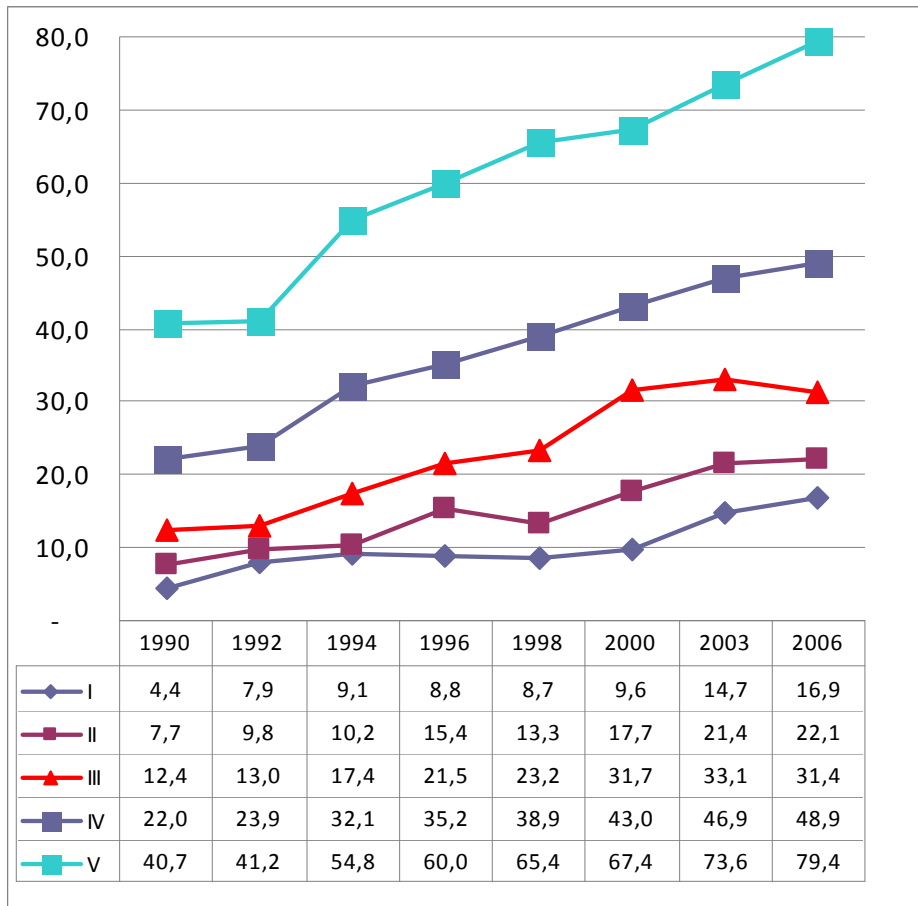
	I	II	III	IV	V	Total
Universities	8.3%	11.5%	16.1%	27.7%	36.4%	100,0%
Vocational Colleges	8.3%	14.9%	23.5%	27.9%	25.3%	100,0%
Technical Training Centers	10.4%	17.3%	23.3%	23.6%	25.4%	100,0%
Total	8.6%	12.7%	18.3%	27.5%	32.9%	100,0%

Casen Survey 2006



Background of Vocational Education in Chile

Historical Coverage: per household income quintiles



Casen yearly survey

Target population

Quintiles	18 – 25 years
I	377.000
II	430.000
III	433.000
IV	420.000
V	309.000



Challenges

Financing and Fairness

From the analysis of the previous data we conclude the urgent need for developing mechanisms that:

- Assure equal and non-discriminatory access to all financing systems supplied by the Government, no matter the institutional category.
- Assure equal access for all students to all mechanisms of Governmental financial aid.

Avoiding this issue will translate into holding up the development of TTC and VC which serve the highest proportion of the poorest students of the country.



Two Solutions

Public and Private

- Public
 - Launched in 2006. Based on private financing, (Banks).
 - State Guaranteed Loan (CAE in Spanish) to benefit students from all accredited institutions.
 - Loans consider the guarantee from the Higher Education Institution during the period of studies –to ensure a low student dropout rate– and guarantees from the Government after graduation
 - The system has a different cost for students every year. In 2007 this cost was 6,1 % real (plus inflation). For this year (2008) it is not defined yet.



Public Loan

Influence on dropout rate of students loans

Students	Enrollment 2007	Drop Outs	Drop Out Percentage
With CAE	5,212	2,65	5.1%
Without CAE	37,288	8,499	22.8%



Two Solutions


Public and Private

- Private: Tailor-made for DuocUC
 - Created in 2007, (launched in 2008).
 - A loan system alternative to CAE, and those offered by commercial banks.
 - Considers specific characteristics of DuocUC students.
 - To reach reasonable interest rates, DuocUC assumed the following obligations:
 - DuocUC had to undergo a risk evaluation through an independent ratings agency. Fitch Ratings classified DuocUC in A category.
 - From every loan payment to DuocUC, 25% shall be retained and invested in low risk securities, as a first loss reserve fund.
 - Train the institutional staff to advise students interested in this loan system.



Private Loan: Tailor - made for DuocUC


Characteristics



25% of the Risk.
Guarantees first loss



37.5 % of the Risk.
Guarantees second loss



37.5 % of the Risk.
Guarantees final loss

Enables lower cost → Fund cost TAB 360 days
Spread (fee) Fixed 2,0%
Administration Max: 1,5%
Cost for 2008 → 9,3% fixed in CLP

Loan Comparison

Base values 2008

Construction Technician Valparaíso Site				
	CAE	Private Banks	IFC/ DuocUC	
Career Value (CLP*10 ³)	2.730	2.730	2.730	(1).
Minimum Payment (CLP*10 ³)	0,0	20,0	27,3	(2).
Interest Rate	0,94%	1,11%	0,78%	(3).
Time to Repay - after studies (years)	20	5	5	
Monthly Payment (CLP*10 ³)	42,8	64,3	42,8	
Ratio	3,8	1,8	1,4	

Monthly tuition for career CLP 91,000

(1) 4 semesters + 1 sem. Internship + 1 failure

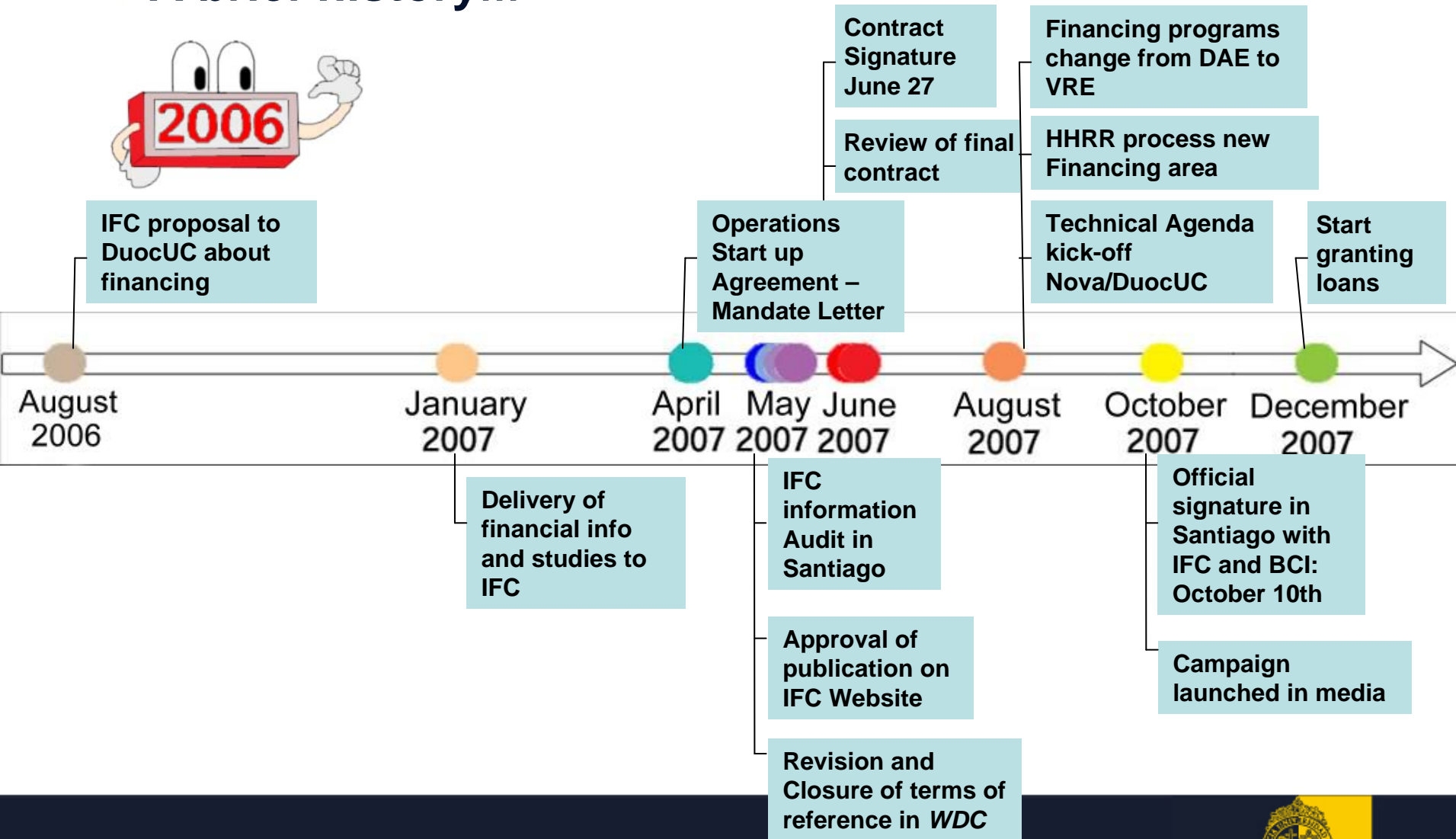
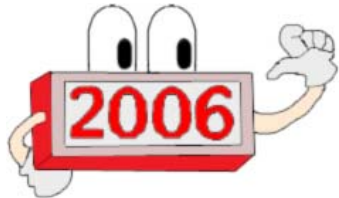
(2) During studies + grace

(3) Nominal interest rate:

- Private Bank: Corfo Rate; 8.07% plus inflation
- CAE: Official Rate 2008; 6.1% plus inflation
- IFC: Agreed rate for 2008; 9.3%



A brief history...



Conclusions

- As of April 30th, 2008, 733 loans had been generated. Only after a reasonable period of time, will it be possible to analyze the impact of this program among DuocUC students, especially for those belonging to the 3 and 4 quintiles whom, as demonstrated until now have not been able to reach reasonable coverage rates.
- Nevertheless, it may clearly be said, that the agreement reached by DuocUC with IFC and BCI demonstrates; that when problems are put in a proper context, solutions can be reached in subjects as technically complex as a student loan system with the sole participation of private entities.



Thank you ...

www.duoc.cl



Duoc UC