

# Developing a Student Financing Facility

*“...advancing access and opportunity  
for higher education in Jordan”*

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# The World Bank Group



Multilateral Investment  
Guarantee Agency,  
1988



International Development  
Association, 1960



International Finance  
Corporation, 1956



International Bank for  
Reconstruction and  
Development, 1945



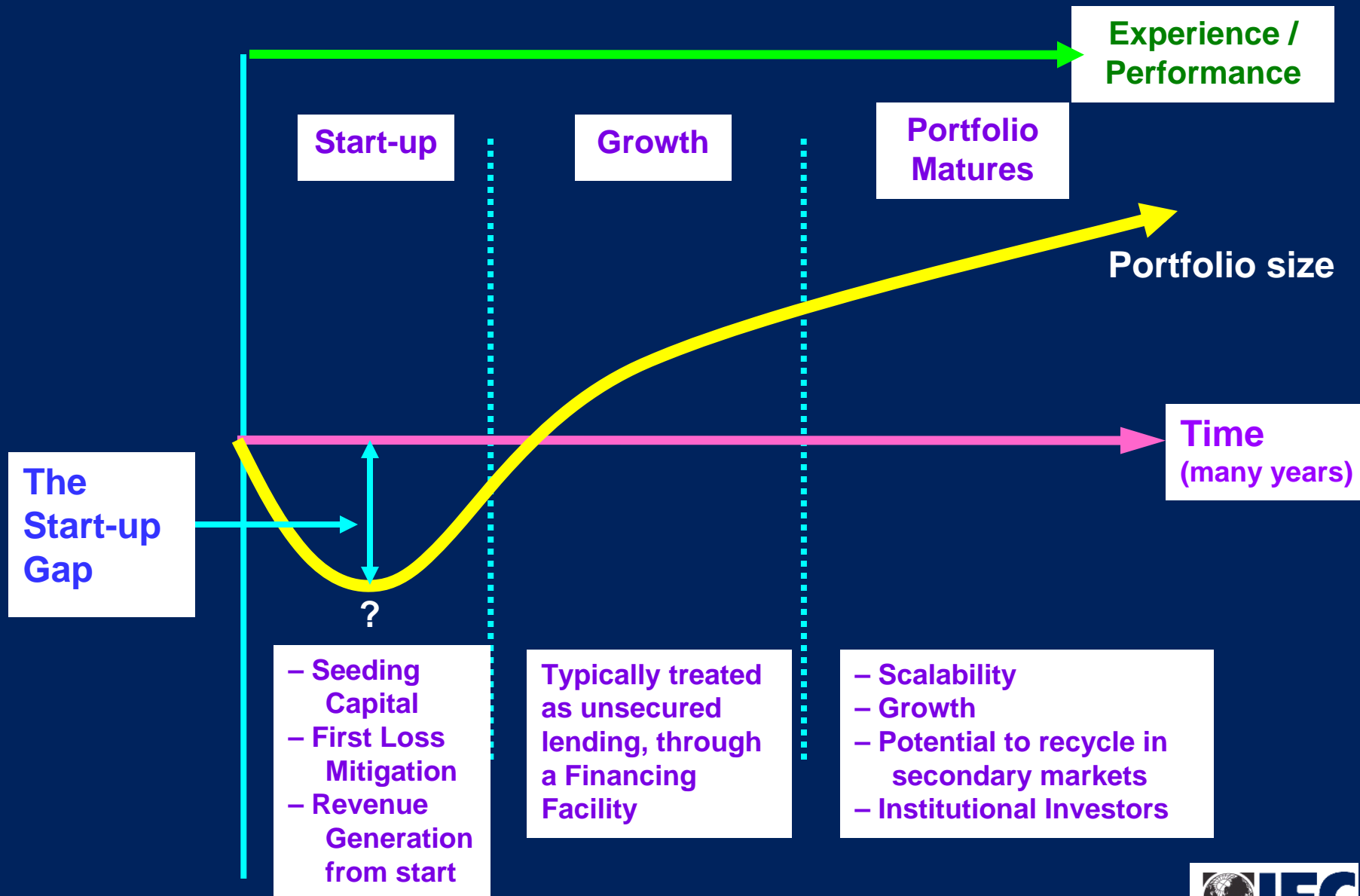
# Importance of Student Financing

**A higher education system without student financing –**

- Difficult to promote equity
- Does not improve affordability
- Reduces access / by putting tertiary study out of reach of academically worthy students who are economically disadvantaged
- Can isolate geographically disadvantaged students who cannot afford to re-locate for financial reasons
- Increases potential for drop-outs

**Government funding / Grant funds /  
Donor funds - can all be important for  
helping to bridge the  
“start-up gap”**

# Student Financing Facility – start-up ➡ maturity



# Define the students that you wish to finance?

- University
- Polytechnic / College / Technikon
- Technical / Short Cycle Courses
- Secondary School Vocational

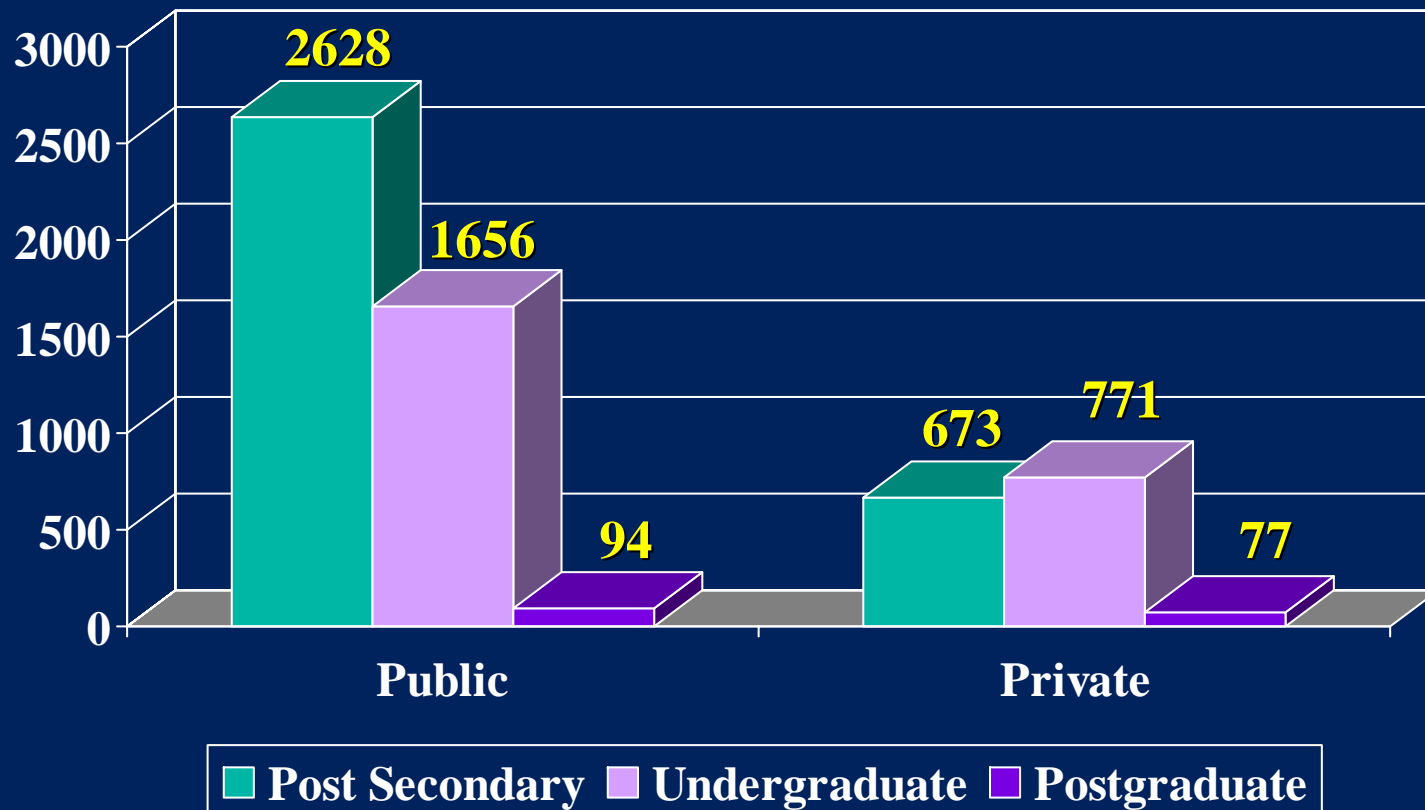
# Example - Mexico

**Tertiary University System**

**2.6 million**

**Tertiary Non-University System (TVET)**

**3.3 million**



**University students, TVET or both?**

# Student Needs Analysis

- **Job seekers**
  - can sometimes drop-out when partial qualification enhances employability (need incentives to complete studies)
- **Degree seeking students**
  - student support necessary in early years
  - systems to mitigate higher drop-outs in Yr 1.
- **Time or Location Issues**
  - understand potential barriers on admission
  - develop contingency plans if constraints pose problems
- **Social/Economic barriers**
  - multiple students per family
  - implications on repayments if social/family obligations pose barriers

# Choosing the right local financial institution to administer the facility

## Adequate Processes and Systems

### Collections

- Direct Debits?
- Local bank deposits (distribution of banks?)
- Electronic transfer of funds?

### Processes & Systems

- Direct payment through university?
- (Indonesia – local foundation assists administrating bank to recover overdue payments)
- Policies for prepayments or cancelled loans
- Deferments - not treated as delinquent loans (rescheduling?)
- Short term (within period of study) vs. longer term (beyond period of study) loans

# Who will market the service?

- The local bank?
- The loan administration service? (Eg. FINEM. Mexico)
- Each university?
- Government agency?

## Issue to consider -

- Is there a local 'culture for borrowing' for education?

**Good socio-economic and  
demographic data support good  
student financing systems**

# A Need for a Market Analysis

## Ensures that we:

- Can ascertain those worthy students we can reach who need assistance the most
- Identify the appropriate (quality) education institutions to link with
- Identify the local financial institution and/or service administrative partner with adequate technical capacity
- Establish sound risk management/underwriting criteria
- Design scheme that minimizes defaults

**FINEM Mexico – a case for sound analysis . . .**



# Predicted Growth in Enrollments

Level	2005	2010	Annual Average Enrollment Increase	Total Increase in Enrollment (2005-2010)
Post secondary	51.4%	57.0%	91,053	455,267
Undergraduate	22.2%	26.8%	106,734	533,670
Postgraduate	7.9%	9.6%	7,635	38,175

KEY: Post secondary: population from 16 to 24 years  
 Undergraduate: population from 18 to 24 years  
 Postgraduate: population - 24 years and older  
 Source: MoE/SEP, 2006

Source: FINEM, Mexico, 2006



# Other important data . . .

- Country socio-economic income levels
- Distribution of 18 to 24 yr olds by income levels
- Household expenditures on higher education
- Alumni earnings from sample universities and post secondary institutions
- Time taken to get employment after graduation
- Assessing payback capability - projected time to pay back loans based on projected earnings in different disciplines and occupations

# Screening criteria for student loan applications

## How will a student enquire re his/her eligibility –

- Through the university?
- Via the Internet?
- Local administering bank or finance institution?

## What will eligibility criteria consist of? –

- Max tuition repayment as % of total household income?
- Number of family members in college?
- Career or discipline to be studied?
- Min. academic performance on admission?
- Distance of university/HEI from their home?
- Credit screen – history of borrower?
- Other . . . ??

# Screening criteria for student loan applications

## Other criteria to consider re eligibility –

- Native / National citizen?
- Age group eligibility eg. between 18 to 50 yrs?
- Level of program (including foreign)
- Employer assistance
- Guarantor (parent)
- Life/Savings insurance
- Minimum documentation . . . . .

# Screening criteria for student loan applications

## Minimum documentation requirements might include –

- Official ID including photo and signature (for both student and guarantor)
- Student and Guarantor Authorization to check information
- Legal – birth/marriage certificates (both student and guarantors)
- Recent utility/rates bill (student and guarantor)
- Address/location map (student and guarantor)
- Recent family income/tax receipts
- HEI acceptance letter – with grade hist; high school cert.
- Guarantees – copy of real estate title/rates receipt
- Car insurance policy

# Other Administration Characteristics

- **Student advice/support**
- **Deferment of studies**
  - flexibility of higher ed system
  - student loan facility tailored accordingly
- **Drop-outs**
  - affordability (rescheduling or partial scholarships?)
  - academic reasons (counseling?)
  - obligations and process for debt recovery
- **Unemployed graduates**
  - rescheduling capability

# Some characteristics of robust administration systems

## ■ **Students**

- advice and financing options
- set minimum academic requirements
- track student enrollment and attrition
- track employability & financial returns in job market
- documentation (loan agreements and contracts)

## ■ **Credit analysis and management**

- points scoring for means testing
- processing of partial scholarships, with system for managing multiple scholarship subsidies
- managing student deferment or re-enrollments
- analysis and management of different loans/scholarships for different programs

# Facility Origination, Structuring & IFC Participation

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# Structured finance solutions

IFC can structure risk sharing facilities to help develop a specific segment of the education market, where IFC cannot act as a direct lender:

- For Education institutions looking to facilitate students' access to student financing
- For Banks looking to increase their education lending business
- For sponsors and donors looking to leverage funds they are willing to provide for a project






# Risk participation agreements

- A specific line of business, such as student loans.
- Agreements between IFC and partners to originate more of these loans while sharing the risks.
- Predetermined procedures and criteria to originate and service the loans.
- Loans remain on the originator balance sheet and benefit from an IFC risk participation.
- The IFC risk participation covers a portion of the losses on the loan portfolio.
- Very flexible structures with an infinite number/variety of risk profiles.

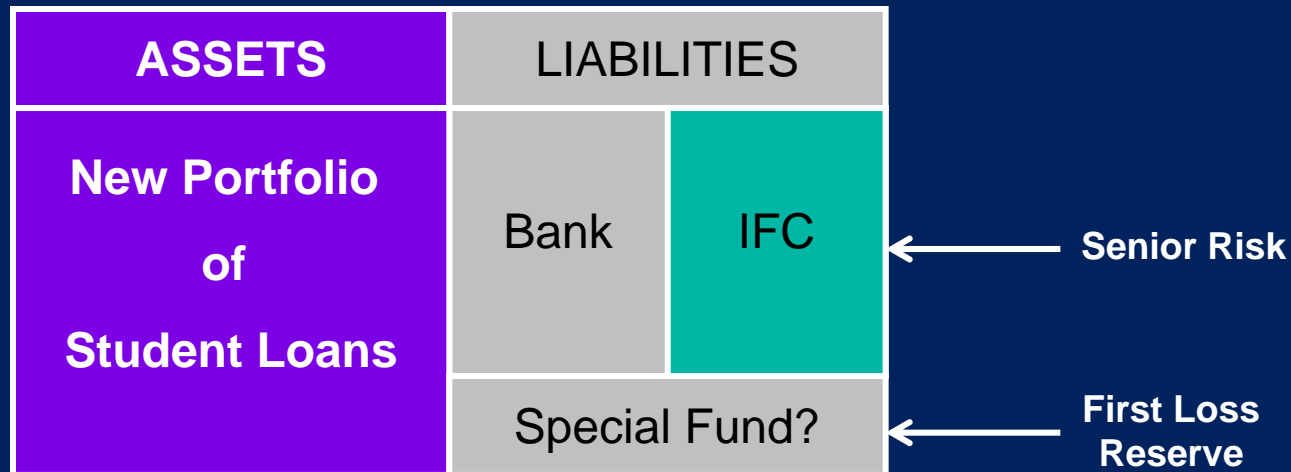
# Student loans

- The partners: the risks on a portfolio of students loans can be shared between sponsors, donors, Universities, IFC and a Local Bank.
- The Local Bank funds the loans which remain on its balance sheet. The Bank enters into a risk participation agreement with its partners.
- The Local Bank will disburse the amount of the loan directly to the Universities and will receive repayments from the students and their families. If amounts due are not paid, the Local Bank will have some recourse to its partners.

# MENA Education markets at a glance – Student Loan potential ...

	Population	GDP	Education % GDP	Private Sector share/secondary	# Students in tertiary education	Penetration
	74 mm	\$89 bn	4.7%	5.5%	2.5mm	33%
	<b>5.6 mm</b>	<b>\$13 bn</b>	<b>5%</b>	<b>16.6%</b>	<b>0.2 mm</b>	<b>39%</b>
	25 mm	\$310 bn	N/A	N/A	0.6 mm	28%
	19 mm	\$26 bn	< 5%	4.0%	N/A	20%
	21 mm	\$14 bn	N/A	1.7%	0.2 mm	9%

# Risk Participation Facility



- There are many different possible risk participation structures. The proposal described here offers two tranches of risk: first loss and senior risk. Other structures offering different risk/return profiles are also possible.
- First loss Reserve is generally provided by the facility sponsors, donors and/or the Universities.
- IFC will share the Senior Risk with the Local Bank covering a percentage of all losses after the First Loss Reserve has been exhausted.

# The success factors

- One or several providers of first loss protection.
- A bank interested in the education sector.
- A bank willing to take risk.
- A bank with strong administrative systems.
- Universities with good alumni information.

# Issues to be addressed in structuring the transaction

- The universities will focus on academic performance of the students while the bank will focus on the credit worthiness of the student and his family.
- The universities will try to reduce the monthly payment while the bank will prefer to limit the loan maturity to the study period.
- The interest rates, although generally lower than unsecured consumer lending, may still remain high for some students.

# Using donor funds

**When donor funds are made available for a project, they can be used to:**

- Increase the size of the lending program.
- Modify the terms of the loans to make them more attractive to the schools or the students.
- Include schools or students that would not be eligible under the standard criteria.
- Leverage more the first loss reserve provided by the sponsors.
- Donors would receive their share of the remaining funds when the program unwinds and could re-invest these amounts into a new program.

# **IFC**

## **Some recent projects**



# The EDU Loan project

- Started in 2000 in South Africa – initial IFC investment US\$2.8m
- Payroll-based lender – collections through payroll deductions
- Access to University and Professional training
- Loans up to US\$650 –repayable within 12 months
- Low Delinquencies (less than 2%)
- Currently 72,000 students – expected to reach US\$ 40 million and 97,000 students by end of 2007.
- IFC currently working on a PCG for a bank credit line

# The NIIT project

- IT school in India founded in 1981 which has trained 1 million students. Students find qualified jobs with an income more than double their parents’.
- Citibank already a lender, but had exposure and risk limitations.
- Financing for tuition and related expenses for a 3 year program.
- Loans: 7 year maturity with partial interest payment for 3 years followed by equal payments for the next 4 years.
- IFC partnered with NIIT and Citibank with IFC providing a mezzanine guarantee of 10% above a first loss coverage provided by NIIT and Citibank of 11%. The risk on the remaining 79% was assessed to be investment grade and retained by Citibank.



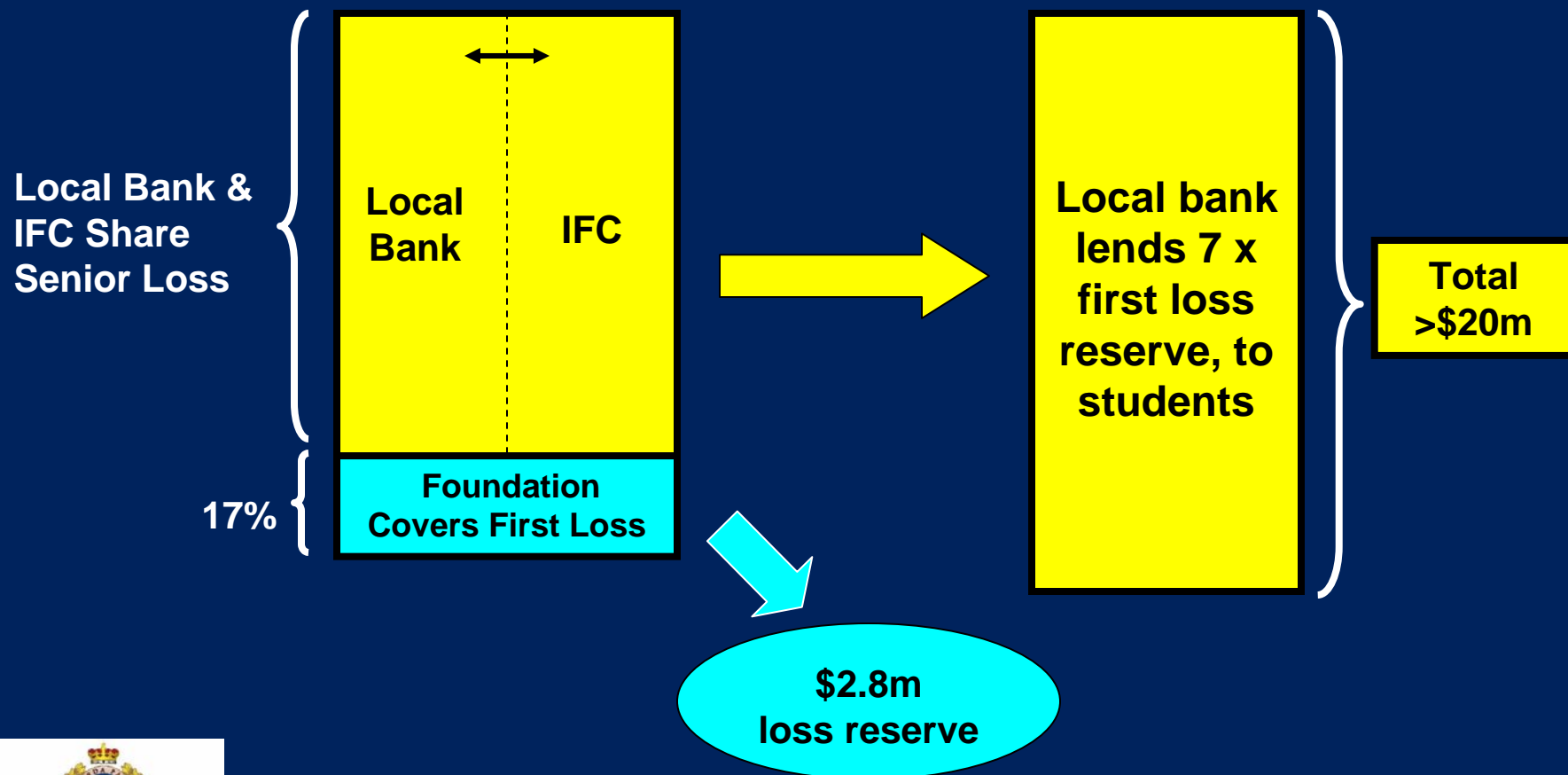
# The Sampoerna project

- Sampoerna - a Foundation providing scholarships in Indonesia which will identify students going to selected Universities eligible for the loan program.
- Objectives of the project:
  - To leverage the Foundation's funds
  - To develop a high impact product that is expandable and replicable
  - To encourage the private sector to further the educational mission of Sampoerna
- The risks on the portfolio of loans are shared among Sampoerna, Bank International Indonesia and IFC. The Universities participate by subsidizing the interest rate on the loans if needed.
- Sampoerna provided a funded reserve account at closing, while IFC covers 50% of portfolio losses in excess of the reserve. BII retains the remaining 50% of the senior exposure.



# Indonesia: Innovative Structuring of a Student Financing Facility

...*illustration*...



# **IFC**

## **Some lessons learned**

# Why Some Student Loan Schemes Can Perform Poorly

- Inadequate underwriting criteria
- Poor servicing and systems
- Government sponsorship perception
  - (social resistance to pay back)
- Mobility of students
- Difficulty servicing loans across borders

# LAC Surveys – Lessons Learned

- Good lending policies pay off
- Accommodating affordability will help pre-determine performance and success of schemes
- Importance of adequate collateral & security
- HEI's should bear some of the risk – & use Alumni
- Governance & management – administration & MIS
- Marketing

# Other Issues From LAC Study

- Long term loans – max. maturity 10-15yrs – Risk!!!
- Coverage – tuition & living expenses – not all provide
- Loan limits eg. 80% – additional cash required

# Questions & Discussion