



Structured and Securitized Products

Sampoerna Student Financing Facility

HIGHLIGHTS

- First-ever private student loan risk sharing facility in Indonesia
- Innovative local currency risk structure leveraging donor funding
- Targeting total origination of US\$20mn equivalent of student loans

THE PARTICIPANTS

Established in 2001, Sampoerna Foundation (Sampoerna) is the largest philanthropic organization in Indonesia with total assets estimated at US\$150mn equivalent. The vast majority of Sampoerna's funding comes from corporate donations and institutional grants. The foundation was created to improve the education sector in Indonesia and provide academically-driven, yet financially-constrained, youths with the opportunity to pursue a university degree. Sampoerna has to date provided over 18,000 scholarships ranging from junior high school to post graduate studies overseas.

PT Bank International Indonesia Tbk (BII) is currently the sixth largest bank in Indonesia. Privatized in 2004, the bank's assets totaled approximately US\$4.9bn equivalent in 2005. Consumer lending accounted for 41% of its loan portfolio while loans to small and medium enterprises (SMEs) accounted for 30%. BII now has a strong and diversified product offering in mortgages, SME loans, and credit cards. In 2006, BII introduced personal loans with the objective of having this asset class represent 7-8% of its loan portfolio.

FINANCING OBJECTIVES

One of the main causes of low enrollment in Indonesia is the financial difficulty that poor students encounter upon acceptance into a university. This financial stress is further aggravated by the high entrance fee charged up-front, which can represent up to 30% of the total cost of education. The Sampoerna Student Financing Facility

was created to address these financial impediments through the introduction of a novel risk-sharing arrangement with a private sector partner bank. Through the credit protection offered by this facility, the participants seek to encourage students to pursue higher level education by making the provision of loans to them more attractive to BII.

THE STRUCTURE

The facility is structured as a risk-sharing agreement among Sampoerna, BII, and IFC. Sampoerna will assume the first loss risk of the portfolio of loans while IFC will guarantee BII for 50% of any portfolio losses incurred in excess of that first loss. BII will originate the facility loans and bear the risk of loss on the remaining portion of the senior-level portfolio not guaranteed by IFC. It is expected that the eventual maximum size of the facility will be IDR 206.8bn (US\$22.75mn equivalent), comprised of US\$2.75mn equivalent of first loss protection from Sampoerna and US\$10mn equivalent of senior-level risk exposure from both IFC and BII.

The facility will extend loans to students and their families at participating educational institutions. The loans will be disbursed directly to the institutions and will cover the cost of entrance fees and one year of tuition.

The loans will have tenors of between one and three years, with equal monthly installments of both principal and interest. With an initial maximum portfolio size of US\$5mn equivalent for the first tranche, the portfolio is expected to reach a maximum size of US\$20mn equivalent over the term of the facility. Each tranche of the facility will have a maximum term of seven years.

OUTCOME

Signed on September 15, 2006, the transaction became the first private student loan financing facility in Indonesia to use a risk sharing mechanism to leverage a private foundation’s contribution. Capitalizing on Sampoerna’s experience in processing scholarships, BII’s strong portfolio management, and IFC’s innovative structure, the facility will make available up to US\$20mn equivalent of student loans.

In addition to mobilizing substantial new funding for student loans, the facility allowed BII to offer a more attractive interest rate to students compared to those typically offered by banks in Indonesia for unsecured lending. The facility will also allow BII to build a portfolio of student loans that in the future may be securitized for sale to local institutions, thereby creating a new asset class for institutional investors.

Most importantly, the facility is expected to expand access and boost demand for tertiary education by mobilizing private resources in education financing. The success of this transaction will pave the way for possible replication with other foundations and donors globally.

TERMS AND CONDITIONS	
Amount of the First Tranche	IDR 52.7bn (US\$5.8mn equivalent)
Currency	Indonesian Rupiah
Closing Date	September 15, 2006
Maximum term of the Facility	7 years
Maximum Reference Portfolio	IDR 206.8bn (US\$22.75mn equivalent)
Enhancement	IFC provides a guarantee to cover up to 50% of principal credit losses that are in excess of the first loss threshold

