

Ideal Invest S.A.

COMPANY BACKGROUND

Ideal Invest S.A. (Ideal) is the leading private provider of student loans in Brazil. Founded in 2001, Ideal originally offered working capital financing to private universities, backed by student tuition receivables. The company moved into student lending in 2006 with the development of its signature lending product, Pravalor.

Ideal was founded by Oliver Mizne, a young entrepreneur with a vision to leverage the use of finance to increase access and choice for lower-income students seeking tertiary education in Brazil. Following several rounds of equity financing, the company attracted an experienced group of investors, including prominent individuals with

Country: Brazil

Sector: Education Finance

IFC's Investment: BRL 12 million
(approximately \$7.5 million) in equity

ample experience in the financial sector, as well as private equity funds managed by Victoria Capital (formerly DLJ South America) and EOS Investimentos.

DRIVERS FOR IDEAL'S INCLUSIVE BUSINESS MODEL

- Market demand for university education, due to economic growth increasing the need for qualified human resources and graduates' incomes rising relative to those of non-graduates
- Insufficient supply of free public university education relative to demand
- Limited financing options for students attending private universities

As Brazil's economy has grown, demand for qualified labor has outstripped supply and raised the incomes of those with college degrees up to three times higher than those without a degree. This premium has increased market demand for post-secondary education — but spots in the free public university system are limited, and tend to go to higher income students who are better prepared academically.

In 1996, the government created the Education Law to incentivize private operators to enter the market. The Law simultaneously reduced regulation and focused on the quality and accessibility of the education offered. Another legislation in 1999 enabled for-profit private institutions to operate fully in the post-secondary education market. It created a more amenable regulatory environment for these

institutions, including tax breaks for schools that accept low-income students.

Private institutions have played a critical role in expanding access to post-secondary education among lower-income students in particular. In the late 1990s, only about 5% of students from the lowest-income households were able to attend university, whereas today this is the fastest-growing demographic in the country. The government has offered full and partial scholarships and created a government-sponsored student lending program, helping to fuel this trend. However, these programs are expensive to maintain and do not address the needs of all students who see education as a stepping stone to a better life. Ideal was founded to address this gap.

IDEAL'S INCLUSIVE BUSINESS MODEL

Pravalor loans are available to students enrolled in one of more than 15,000 approved courses offered by 265 partner universities with which Ideal works.

Students interested in applying for Pravalor loans must first fill out an online form. The online process limits Ideal's staffing needs and helps keep costs down. Applicants are not required to have bank accounts, but must demonstrate, among other conditions, that their monthly family income is sufficient to meet loan payments. Interest rates vary according to programs and courses, and participating universities share some of the costs in order to make the loans more affordable to students. In 2011, over half of new Pravalor clients joined Ideal's Zero Interest Program, where students pay only the principal amount and participating universities pay 100% of the students' interest. Delinquency rates are currently well below those of traditional consumer lending loans in Brazil.

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Ideal's in-depth knowledge of student repayment behavior has been critical to the success of the Pravalor product. Over the years, Ideal learned important lessons about when students repay and when they do not. For example, issues like the distance a student travels to and from school, the specific courses he or she takes, and the quality of the educational institution all factor into the likelihood he or she

will repay on time. This information now influences Ideal's lending decisions.

Another aspect of Ideal's model is that it partners with educational institutions; Ideal currently has 265 university partners and will only lend to students attending these universities. This partnership is mutually beneficial because the universities gain students who would otherwise not have the means to attend, and Ideal gains allies that will market its services and help reduce the cost of the loans to students. In May 2012, Ideal signed a memorandum of understanding (MOU) with Itau Unibanco, a large Brazilian commercial bank, whereby Ideal will purchase the bank's student loan assets. The bank will become a minority shareholder in Ideal, and both companies will join forces to further explore opportunities in this segment.



An incremental approach to lending has also been critical, further minimizing Ideal's risk and accommodating the needs of lower-income students. Ideal finances students' educations through successive small loans. Once a student is approved to borrow, Ideal issues an initial loan covering part of the first semester. Each subsequent loan covers another semester's tuition and is repayable in a period of 12 months. While each of these semester loans are independent from each other, repayment is coordinated and staggered, such that only one installment is due each month. Students begin repaying the first loan right away, the second loan after the first is paid off (effectively receiving a grace period of six months where no interest accrues), the third loan after two years (a grace period of one year), and so on as needed until they complete their studies. New loans are only issued to students who are up-to-date on their payments. This incremental approach limits Ideal's exposure to any given student. It also appeals to lower-income students and families whose cash flows may be too uncertain to commit up front to larger, longer-term loans.

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Ideal has two main revenue streams. The first is a commission fee charged to partner institutions, equivalent to a percentage of the principal amount on loans issued to their students. This fee reflects the important role Ideal financing plays in expanding access to its partners' programs among students who might not have been able to afford it otherwise. Ideal's second revenue stream comes from a special purpose vehicle (SPV) that the company has structured to carry the loans to maturity. Ideal receives management and performance fees from the SPV, as well as capital gains from the percentage of junior notes that it holds in the vehicle. The SPV collects interest from both students and universities. It funds itself in the Brazilian capital markets by issuing senior notes, which are currently rated AA by Standard & Poor's.

RESULTS OF IDEAL'S INCLUSIVE BUSINESS MODEL

- Over 24,000 student borrowers have attended 265 partner universities in 24 Brazilian states as of August 2012
- Over 15,000 female students
- Portfolio of approximately \$65 million

Ideal has become the largest private student loan provider in Brazil with a portfolio of over \$65 million, having served over 24,000 students at 265 partner institutions in 24 states. An additional 48,000 students have been approved but have not yet chosen to borrow; they feel safer enrolling in post-secondary education programs knowing they have been pre-approved for financing in case they need it.

Approximately 88% of Ideal's borrowers are located outside the major Brazilian cities of Rio de Janeiro and São Paulo. Nearly 61% are women and 64% work while in school, at an average age of 25. Approximately 62% come from families with less than \$1,500 (R\$3,000) a month in household income, and 66% are the first in their families to go to college.

Further growth will not be without its challenges, the combination of good returns to students, universities and investors will enable Ideal to reach the goal of benefitting an additional 100,000 students by 2016.

Market-based financing for education in Brazil is still in its nascent stages, and Ideal must compete with other forms of credit—like ubiquitous consumer credit—and with government scholarships and loans that offer subsidized interest rates. However, as more and more Brazilians aspire to go to university, the demand for additional financing options will only continue to grow.

IFC'S ROLE AND VALUE-ADD

IFC's Investment: BRL 12 million (approximately \$7 million) in equity

Investment Year: 2010

- Enable Ideal to expand its student loan program while enhancing the credibility of the organization, thereby making it more attractive for other investors to participate
- Utilize knowledge of the education sector in Latin America and Brazil, as well as expertise in structured finance, to help Ideal mobilize capital from investors
- Facilitate access to best practices to enable the company to serve its student customers better and more sustainably

(Published August 2012)

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