Universidad Diego Portales

HIGHLIGHTS
- First-ever securitization of student tuition payments and first future flow securitization in Chile
- US$23mn equivalent secured bond issue denominated in inflation-indexed local currency, with an 8-year maturity
- US$6.9mn equivalent partial credit guarantee provided by IFC
- The issue was placed with domestic institutional investors

THE COMPANY
Universidad Diego Portales (UDP) was founded in 1982 and was among the first “non-traditional” (unsubsidized by the government) private universities authorized to operate in Chile. It operates two campuses, in Santiago and Temuco, with over 9,000 students, 1,000 professors, and 31 undergraduate degree and 25 graduate degree programs within 8 faculties.

It has a very strong reputation as one of the leading private universities in Chile. It collaborates with leading universities around the world, and has close relationships with local companies and the community and society at large. It is the third-largest non-traditional university based on number of students, with approximately 8% of the non-traditional university market and 2.5% of the total university market.

FINANCING OBJECTIVES
The University’s main objective was to finance its expansion and modernization project. The 2003-2004 project focused on consolidating the University’s market position and improving its overall quality, while also providing additional space needed to increase student enrollment in the University’s new programs in medicine, engineering, and humanities. Overall, the project included the construction of three new buildings and the refurbishment/expansion of six existing sites.

As part of the overall financing solution IFC partially guaranteed the 8-year US$23mn equivalent (in UF, inflation indexed local currency) bond secured by UDP’s future tuition flows. The partial guarantee improved the credit rating of the bond, thus increasing the bond’s attractiveness to local institutional investors. It also allowed these investors to diversify their holdings into an as of yet untapped sector.

THE STRUCTURE
As part of the securitization transaction, UDP transferred to a Special Purpose Vehicle (SPV) the right to directly receive the future tuition payments of students enrolled in the undergraduate schools of law, design, public relations, and journalism. The SPV in turn funded the purchase of such payments by issuing bonds which were secured by these cashflows.

In addition to the security provided by the future tuition payments, bondholders also received a guarantee by IFC for up to 30% of the outstanding principal amount of the bonds, approximately US$6.9mn equivalent at issuance. The securitization was structured in such a way that the guarantee would be called upon once all other revenue streams were fully exhausted.

Given the University’s business cash flow characteristics, a securitization of its future tuition flows seemed the ideal way to secure attractive financing. Other factors that made securitization appropriate were the anticipation of infrastructure needs and its strong reputation.
The bonds received a AA- rating by the local affiliates of Moody's, Standard & Poor’s, and Fitch. This represented an increase from the University’s single-A rating. The issue, which was oversubscribed, was placed among domestic institutional investors, including pension funds, insurance companies, and mutual funds. The bonds priced tight to expectations, yielding 240bps over Chilean Treasury securities.

Overall, the transaction helped a successful private university to innovatively raise capital and help build its investor base. It also provided a demonstration model for replication elsewhere. It contributed to the development of domestic capital markets and expansion of the local currency financing options available to educational institutions.