



Structured Finance



Universidad de San Martín de Porres (USMP)

HIGHLIGHTS

- First-ever bond issuance by a non-profit institution in Peru
- US\$15mn bond issuance secured by future tuition flows with a 7-year maturity
- IFC partial guarantee for up to 30% of the outstanding principal amount
- Issuance broadly placed amongst domestic investors

THE COMPANY

Founded in 1962, Universidad de San Martín de Porres (USMP) is the largest private university in Peru. The university caters to more than 27,500 students, mostly from the lower-middle income segment of the student population. USMP has positioned itself as the only private university to target the lower-middle income segment of the student market. This focus on the lower-middle income segment is evidence of the university's dedication to social outreach and community development. During its 42 years of existence, USMP has become a well recognized institution with an excellent reputation in areas including medicine, engineering, and law. Despite economic downturns, USMP's financial performance has been stable. Additionally, the university has continued to strengthen its academic standards by emphasizing research and development activities.

FINANCING OBJECTIVES

This transaction represented the first bond issued by a university and the first by a non-profit institution in Peru. The proceeds of this issuance will be used to partially finance USMP's US\$35.5 million modernization program consisting of: (i) expansion of the Communication Sciences campus; (ii) construction and equipment of a new building for the university's Dentistry school; (iii) upgrade of the Dental clinic; (iv) establishment of regional campuses in the

north, east, and south of Peru; and (v) restructuring of an existing syndicated loan. This expansion is in line with USMP's overall strategy of maintaining its market share in the competitive environment of the higher education market in Lima, improving academic standards, and increasing its presence outside of the Peruvian capital.

THE STRUCTURE

As part of the transaction, USMP transferred to a local Trust (*"Fideicomiso"*) the right to directly receive the future tuition payments of students enrolled in the university. These future tuition payments serve as security to the bondholders. The bond is secured by cash flows from several USMP faculties, namely: Communication Sciences, Tourism and Psychology, Administration and Industrial Relations, Accounting, Economics and Finance, Law and Political Science, Engineering and Architecture, and Dentistry.

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. The transaction was structured in such a way that the guarantee would be called upon once all other revenue streams are fully exhausted.

OUTCOME

The bonds were successfully placed on July 25, 2005 with 20 different investors including mutual funds, government funds, and banks. The bonds were placed at LIBOR + 300 bps, representing a significant cost savings for USMP over its existing sources of financing. This will enable USMP to upgrade its infrastructure and improve the quality of educational services it provides to its students. It is also expected to improve access to quality tertiary education with the establishment of USMP's regional campuses.

IFC's credit enhancement helped the transaction to obtain a AA+(pe) rating from two local credit rating agencies. The enhanced rating was instrumental

in allowing USMP to raise attractive financing and move forward with their renovation and modernization plans. As the transaction represented the first bond issuance by a non-profit institution in Peru, IFC's participation, industry knowledge, and on-going supervision provided additional comfort to investors who were unfamiliar with the issuer, specifically, and the education sector, generally.

The introduction of IFC's structured product to Peru's education sector provided a tool for universities to access the capital markets as an alternative source of financing. Most notably, it represents a diversification opportunity for institutional investors into an important social sector.

TERMS AND CONDITIONS

Amount of the Program	US\$30mn
Amount of the First Tranche	US\$15mn
Currency	US Dollar
Issue Date	July 25, 2005
Maturity	7 years, with an expected average life of approximately 4 years
Interest Payment	LIBOR + 300 bps, payable quarterly
Principal Payment	Amortizing in 28 installments, payable quarterly
Rating	AA+(pe) by Apoyo & Asociados Internacionales S.A.C. and AA+(pe) by Pacific Credit Rating
Enhancement	IFC guarantee of up to 30% of outstanding principal. The guarantee covers both principal and interest

