



# The Global Center on Private Financing of Higher Education

Ryan Hahn, Research Analyst

An Overview of the Global Center

Inaugural Conference  
The Beacon Hotel  
November 27, 2007



The Institute for Higher Education Policy



## Outline

- **Activities of the Global Center**
- **The Rise of Private Finance**
- **Where Do We Go From Here?**

The logo graphic consists of several overlapping, curved lines in a light red color, creating a stylized, abstract shape that resembles a fan or a series of arches.

## Goals of the Global Center

- Established in 2006
- Committed to widening access around the world
- Trend analysis of private financing strategies and tools
- Activities of the Global Center include producing issue briefs and studies, providing trend analysis, and offering expert commentary



## Publications

- Hahn. 2007. *The Global State of Higher Education and the Rise of Private Finance.*
- Johnstone and Marcucci. 2007. *Financially Sustainable Student Loan Programs: The Management of Risk in the Quest for Private Capital.*
- Hahn. 2007. Innovations in the Private Financing of Higher Education. *International Higher Education.*

## Global Center Website

- [www.ihep.org/Research/gcpf.cfm](http://www.ihep.org/Research/gcpf.cfm)
- Central repository of comprehensive data on private financing strategies and tools
- Currently covers:
  - Securitization
  - Multilateral Institutions
  - Philanthropy
  - University-Industry Collaboration
  - Directory of Student Loan Programs



The mission of the Institute for Higher Education Policy is to increase access and success in postsecondary education around the world through unique research and innovative programs that inform key decision makers who shape public policy and support economic and social development.

**NEWS RELEASES**

The Institute for Higher Education Policy Board of Directors Taps Senior Associate Thomas D. Parker to Serve as Interim President

Statement from the Institute for Higher Education Policy Board of Directors: Jamie P. Merisotis to Head Lumina Foundation for Education

Newly Improved Membership Organization Helps U.S. Colleges and Universities Ease Transfer Burdens for Students Who Want to Earn Baccalaureate Degrees

**FEATURED EVENTS**

**Summer Academy 2007**

July 23–27, 2007



summer academy

The Summer Academy is an annual gathering of college and university teams who work collaboratively to

create action plans that increase access and success for students of color in higher education. This unique event allows participating campuses an opportunity to identify institution-focused solutions that, if proven successful, may influence national higher education policy.

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**FEATURED PUBLICATIONS**

**The Global State of Higher Education and the Rise of Private Finance**



This report explores the growing importance of private capital to nations where governments seek additional resources to share the rising per student costs and increasing enrollment rates. It also provides an overview of international good practices and lessons learned from individual countries where the business of tapping into private finance as a supplemental funding source has increased in the past two decades.

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**A Model of Success: The Model Institutions for Excellence Program's Successful Leadership in STEM Education**



This report profiles an 11-year successful initiative to improve enrollment and graduation rates at select minority-serving institutions —Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Tribal Colleges and Universities. The report tracks the range of successful strategies utilized at the

schools under the program called the Model Institutions for Excellence.

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The Alliance for Equity in Higher Education  
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GLOBAL POLICY FELLOWS PROGRAM  
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Evaluation

**POLICY CENTERS:**

**Global Center on Private  
Financing of Higher Education**

Securitization

Multilateral Institutions

Internationalization

Philanthropy

University-Industry  
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Directory of Student Loan  
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## Global Center on Private Financing of Higher Education

### Background

Established in 2006, the Global Center on Private Financing of Higher Education (GCPF) is committed to widening access around the world by identifying global solutions to address the growing concerns about paying for postsecondary education. An initiative of the Washington, D.C.-based Institute for Higher Education Policy (IHEP), the center serves as a central repository of comprehensive data and trend analysis of private financing strategies and tools—ranging from corporate scholarships and other philanthropic aid to private loans, bond issues, and public and private partnerships. Activities of the center include producing issue briefs and studies, providing trend analysis, and offering expert commentary.

The GCPF is directed by IHEP's Senior Associate Thomas D. Parker. Serving as chair of the center's advisory board is a recognized authority on private financing of higher education, Stephen Anbinder.

### Data Clearinghouse

The GCPF examines the current, worldwide state of higher education relative to private sector funding. It focuses on understanding how private capital can help widen access to higher education as a supplement to government funding.

### Expertise and Trend Analysis

The GCPF serves as an advisor to nations around the world that continually seek new knowledge about how to expand and raise the quality of their higher education systems. The center's intellectual capital is composed of experts who can provide sound advice based on their in-depth understanding of private sector funding.

### Publication

- The Global State of Higher Education and the Rise of Private Finance<sup>19</sup>

### News Release

- Private Financing Grows to Become Global Phenomenon in Funding Rising Costs of Higher Education

### Experts

- Jamie P. Merisotis, *President*
- Thomas D. Parker, Ed.D., *Senior Associate and Director of Global Center on Private Financing of Higher Education*
- Ryan D. Hahn, *Research Analyst*

Featured Projects

Evaluation

**POLICY CENTERS:**

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## Securitization

### What is securitization?

Securitization, a subset of structured finance, is a financial technique originally developed in the U.S. housing market in the 1970s. This technique transforms illiquid (nontradable) assets into liquid assets, thereby expanding credit to a larger pool of potential borrowers. Three main characteristics are associated with this process:

- pooling of assets such as mortgages or student loans;
- tranching of liabilities, such as issuing bonds with varying degrees of risk that are reflected in the prices of the bonds; and
- de-linking of the risk associated with the credit pool from the originator of the credit, typically through the creation of a trust or an independent special purpose vehicle. This allows the securitization the possibility of achieving a higher credit rating than the originator of the credit.

### What does securitization have to do with higher education?

The technique of securitization has so far been applied to student loans, future tuition proceeds, future dormitory proceeds, and intellectual property rights. The great majority of securitizations have so far occurred in the United States in the context of student loans. However, the technique of securitization is rapidly spreading to other parts of the world and may offer other countries the possibility of drawing on private capital to increase investment in higher education.

### What information is available on securitization and its relationship to higher education?

Many documents on the field of securitization are available on the Internet, and a selection of these is listed below, along with Web sites that can provide further information. Additional sections provide specific information on the securitization of student loans and tuition proceeds.

## Resources

- Key Documents
- Web sites
- Student Loans
- Tuition

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## Securitization: Student Loans

- **ABSNet (Issuers in Student Loans)**—Provides details of student loan securitizations including deal summaries and performance data. Most transactions are based in the United States. Basic information requires a free subscription. Full access requires a paid subscription.
- **Articles on Student Loan Securitizations**—Securitization.net provides a list of articles on the securitization of student loans, primarily written by credit rating agencies.
- **Barclays Capital. 2006. *Spotlight on Student Loan ABS Issuers***.—This document discusses the strong growth of the Federal Family Education Loan Program and private loan securitizations in the United States and the major players in this market.
- **Chris Giles and Nicholas Timmins. 2007. *Brown to Sell Off Students' £16bn Debt***. Financial Times, March 14.—This newspaper article discusses the plans of the former British chancellor to securitize student debt.
- **Dominion Bond Rating Service (DBRS)**—DBRS maintains a listing of its extensive ratings of student loan securitizations.
- **Fitch Ratings**—Fitch Ratings provides ratings of domestic and international student loan transactions as well as government reinsured and private student loans.
- **Fitch Ratings. 1997. *Comparing UK and US Student Loans***.—This slightly dated article takes a prospective look at the market for student loans in the United Kingdom after the passage of legislation allowing tuition fees to be charged. The possibility of securitizing student loans in the United Kingdom is considered.
- **Fitch Ratings. 2006. *Private Student Loan ABS Tutorial***.—This article by Fitch Ratings provides a recent overview of the U.S. market for securitization of private student loans.
- **International Finance Corporation. 2006. *Innovative Financing Solutions in Education***.—This article discusses the work of the International Finance Corporation in facilitating private finance for universities. Securitization of future tuition proceeds at the Universidad Diego Portales in Chile and Universidad San Martin de Porres in Peru is highlighted, along with a loan program in South Africa.
- **Mark Copping. 2004. *Australian Student Loans – Taking Securitisation Back to School***. *Securitisation News Q3 2004*. Deloitte.—This brief article discusses the possibility of securitizing income-contingent student loans in Australia, using the United States as a model. The income-contingent loan program in Australia is known as the Higher Education Contribution Scheme.
- **Moody's**—Moody's provides ratings of asset-backed securities (ABS), including student loans. However, it does not provide a separate Web page for student loans. Access requires a free subscription.



## Outline

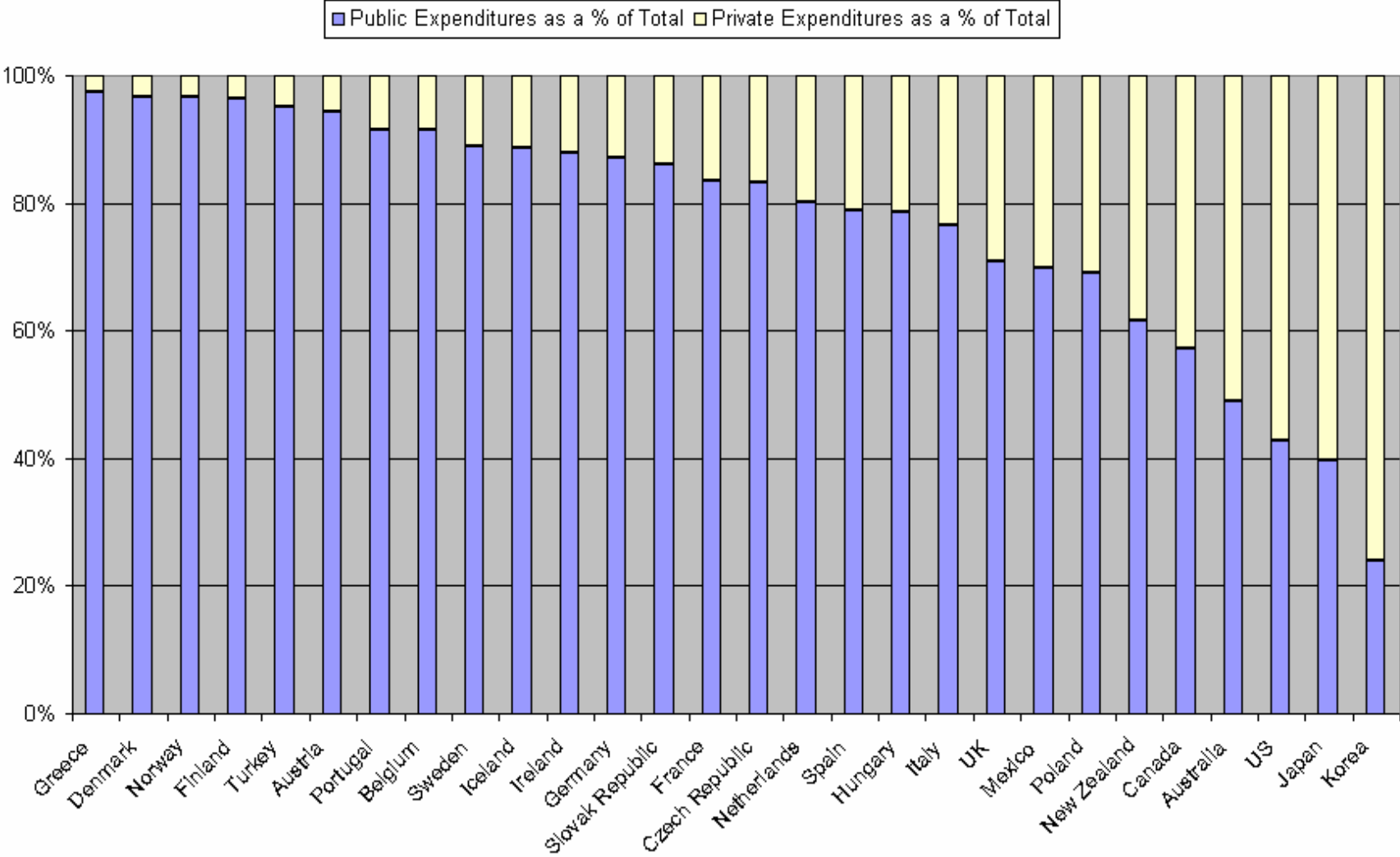
- Activities of the Global Center
- **The Rise of Private Finance**
- Where Do We Go From Here?



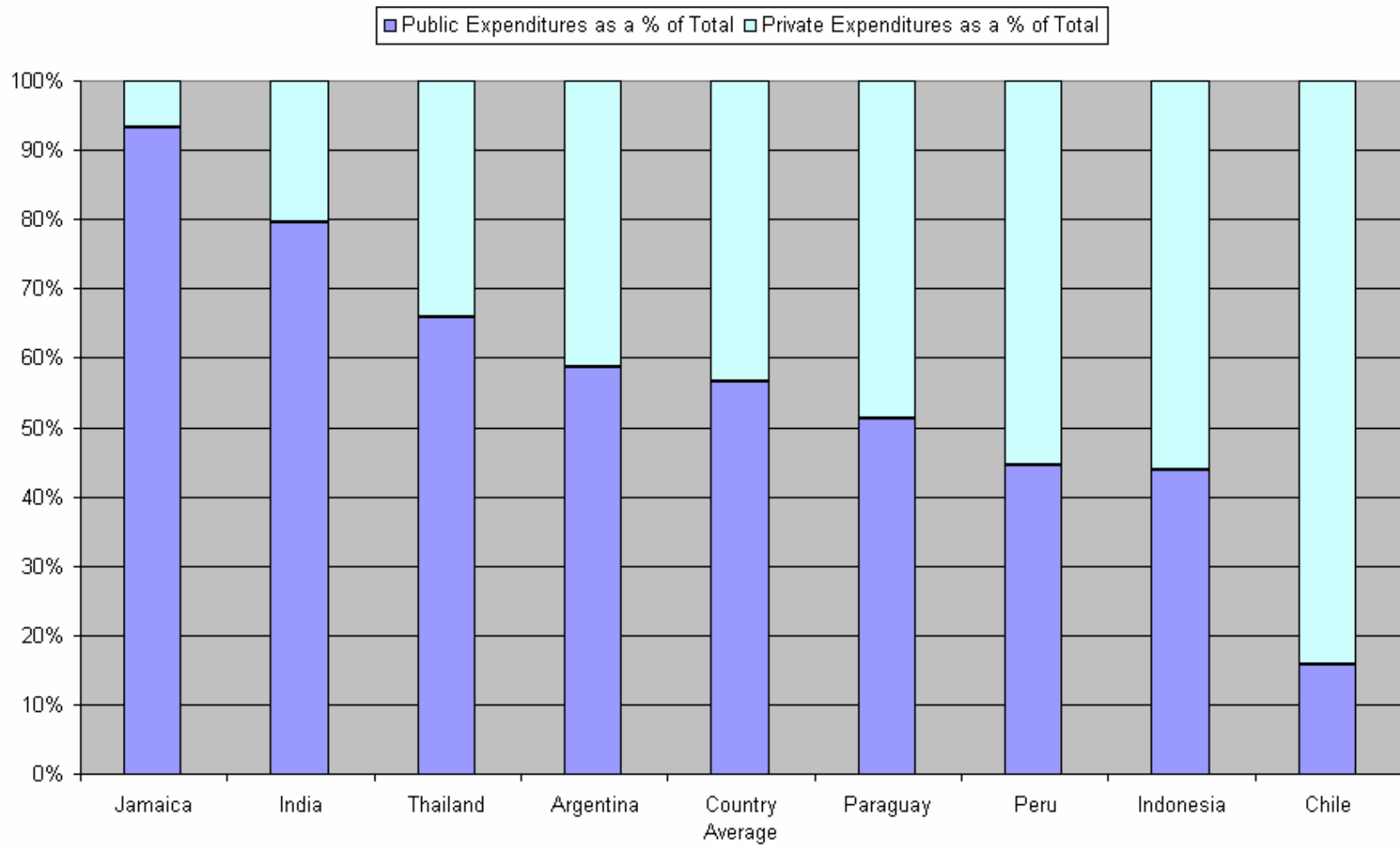
## Private finance contributes about 1/5<sup>th</sup> of total expenditures in the OECD countries

- Based on self-reported data for 2003
- Many problems of comparability
- Unweighted calculation

**Public and Private Expenditures on Higher Education as a Percentage of Total Expenditures on Higher Education in the OECD Countries, 2003**



**Public and Private Expenditures on Higher Education as a Percentage of Total Expenditures on Higher Education in Selected Middle-Income Countries, 2003**





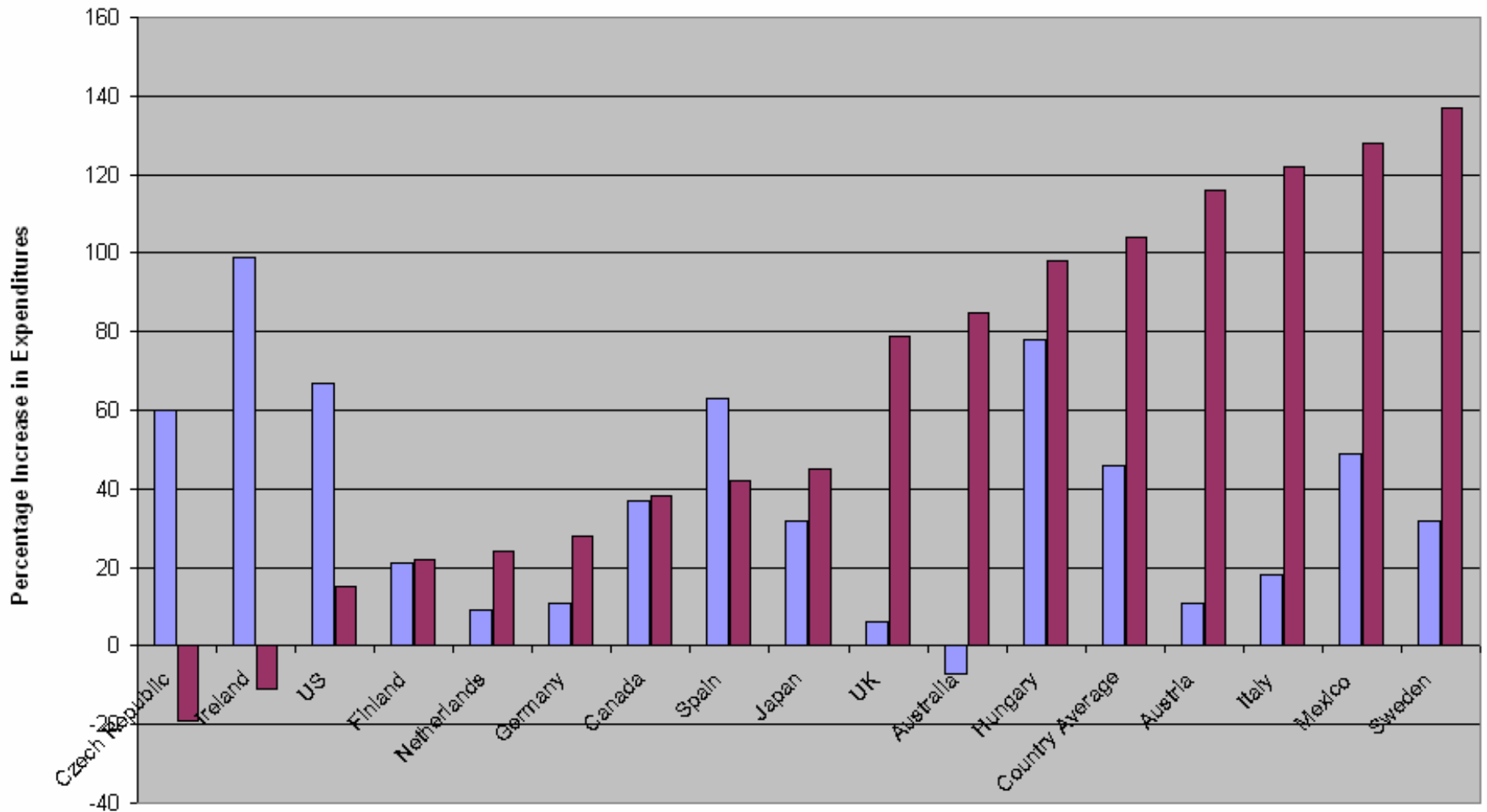
Private finance has grown quickly  
in the recent past, doubling  
between 1995 and 2003

However, according to the OECD:

“It is notable that rises in private education expenditure have not generally gone hand in hand with cuts (in real terms) in public expenditure on education at the tertiary level.”

### Real Growth in Public and Private Expenditures on Higher Education in Selected OECD Countries, 1995-2003

Percentage Increase in Public Expenditures    Percentage Increase in Private Expenditures





## Tuition has been introduced or increased in the recent past in many countries around the world

- *United Kingdom*: Introduced £1,000 tuition in 1998-1999 academic year
- *Australia*: Introduced the Higher Education Contribution Scheme in 1989-1990
- *China*: Introduction of tuition in 1989
- *Indonesia*: Legislation passed in 1998 that gave some universities the right to set their own tuition
- **Contrary Examples:**
  - France, Ireland, Israel



## What is driving the growth of private finance?

1. Growing Levels of Secondary School Enrollment and Graduation
2. Growing Private Returns to Higher Education
3. New Modes of Governance
  1. *Greater Autonomy of Public Institutions*
  2. *Growth of Private Institutions*



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# How Do We Meet the Continued Growth of Demand for Higher Education?

- Increased public expenditures
- Increased cost-sharing
  - Student loan programs
- Philanthropy
  - Possibilities for more effective giving
- University entrepreneurialism
- Bond issuances
  - Universities and student loans



## Future Activities of the Global Center

- Issue Briefs
  - Philanthropy
  - Comparative Case Studies
- Newsletters
- Web Products
- Toolkit