



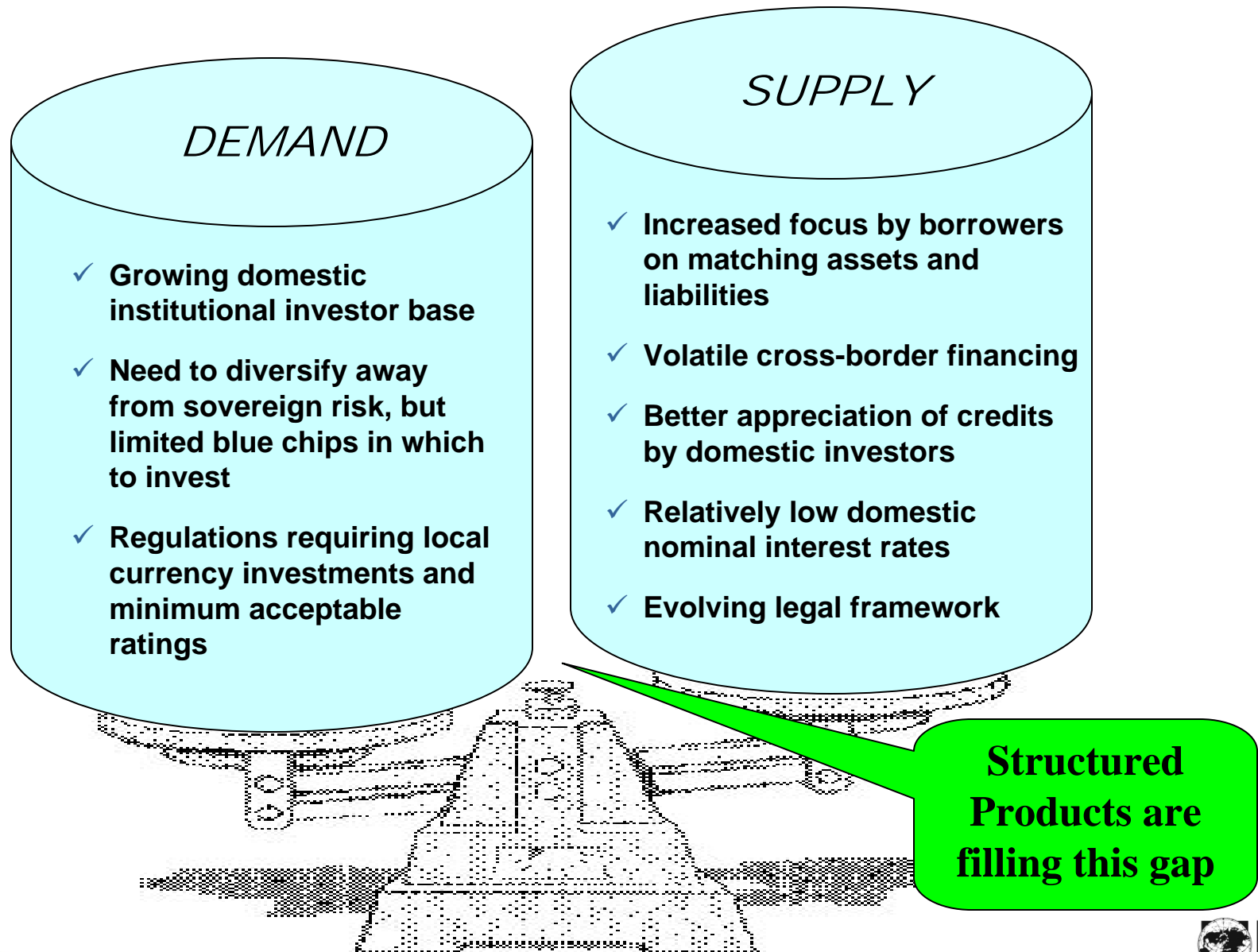
Innovative Financing Solutions in Education

2006 International Investment Forum for Private Higher Education

Structured Finance Contact: **Nathalie Louat** (+1 202 458 9697; nlouat@ifc.org)

Emerging markets

Factors Driving Growth of Structured Finance



Structured finance solutions

- **For Education institutions looking to diversify their funding sources:**
 - securitization of future cash flows
 - structured bonds
 - structured loans

- **For Education institutions looking to facilitate their students' access to student financing or for Banks looking to increase their education lending business:**
 - risk sharing agreements

The IFC Partial Credit Guarantee

- **Allows clients to borrow in any local currency**
- **IFC partially guarantees the amounts due to investors or lenders**
- **IFC supports the financing program of the client by taking the risk of the client and the project**
- **The IFC guarantee and the IFC due diligence, knowledge of the sector and supervision result in a debt instrument with a lower risk profile for investors**

The IFC Partial Credit Guarantee - Basics

- **IFC irrevocably guarantees the due and punctual payment of Principal and Interest, up to the Guarantee Amount.**
- **The guarantee can be used for either a loan, a plain vanilla bond, a structured bond or a securitization.**
- **The guarantee can be structured to reduce probability of default and increase recovery given default.**
- **IFC's objective is to offer the minimum amount of guarantee necessary in order to facilitate a successful transaction.**

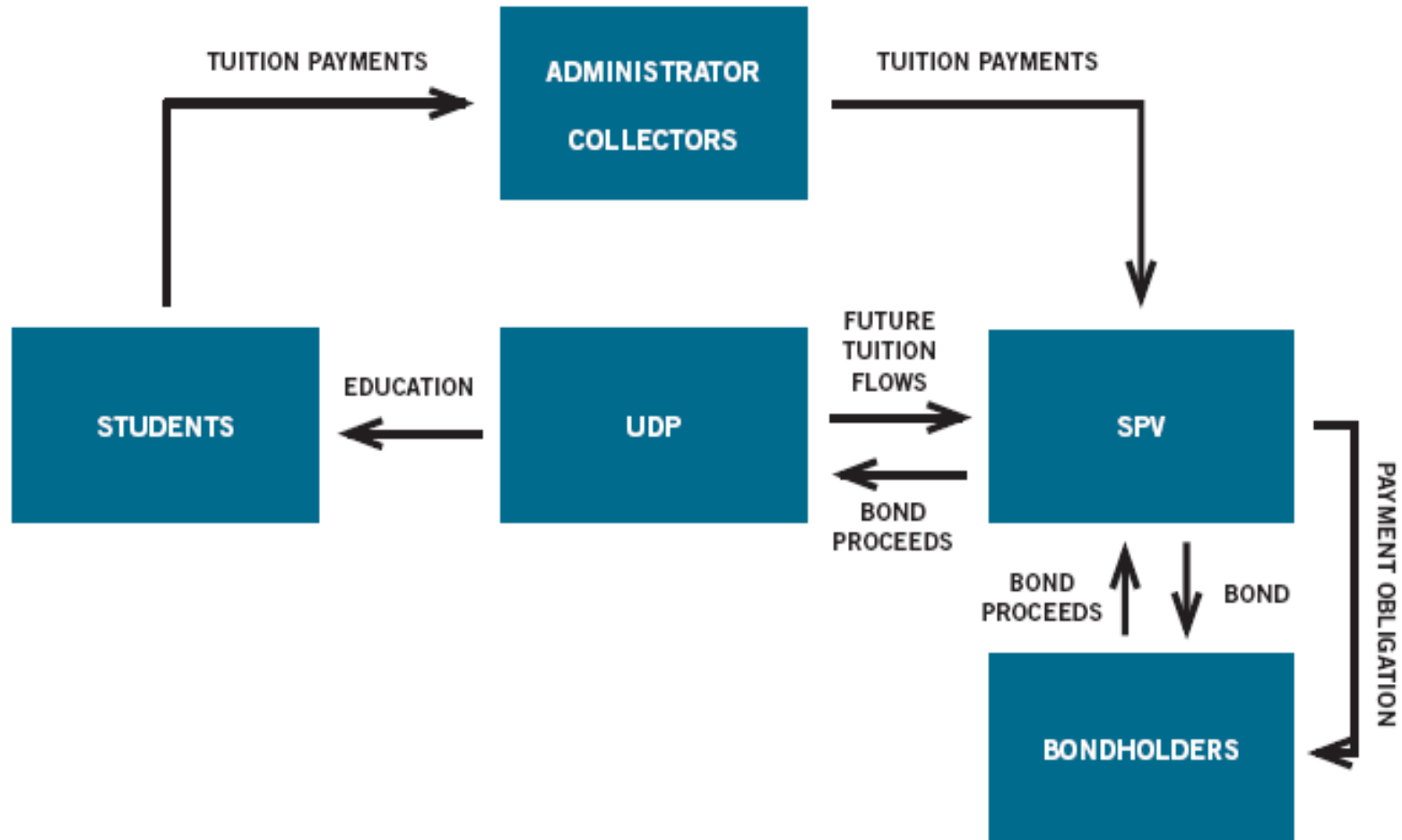
Universidad Diego Portales' objectives

- **Founded in 1982; One of the first unsubsidized by the government private universities in Chile**
- **Ambitious capital investment plan to comfort its competitive position.**
- **Finance the university's expansion and modernization project**
- **Confirm the University's leadership and innovation and commitment to quality and transparency.**
- **Diversify funding sources**
- **Reduce the time needed for completion of the project.**

UDP Structured Finance solution

- **Securitization of the University's future tuition flows**
- **Transfer of UDP rights to receive the future tuition payments**
- **IFC partially guaranteed the 8-year bond**
- **Bond amount: US\$23mn equivalent (in UF)**
- **Improved credit rating of the bond to attract institutional investors.**
- **Diversify the local institutional investors holdings into a new sector.**

UDP Future Flow Securitization



UDP Outcome

- **The bonds received a AA- rating by the rating agencies. (compared to the University's A rating).**
- **Oversubscribed issue, placed among domestic investors, including pensions funds, insurance companies and mutual funds.**
- **Tight pricing, yielding 245bps over the Chilean Treasury.**
- **A successful private university innovatively raised financing and built a new investor base.**

The Process



UNIVERSIDAD DIEGO PORTALES

9 Months


Steps	sep-02	oct-02	nov-02	dec-03	jan-03	feb-03	mar-03	apr-03	may-03
1. UDP's valuation									
1.1. Development of financial model									
1.2. Identification of possible liabilities									
1.3. Selection of tuition and fees cash flows									
1.4. Preliminary risk rating by agencies									
2. Structuring									
2.1. Selection of securitization agency									
2.2. Financial modeling of bond									
2.3. Risk rating of bond									
3. Legal aspects									
3.1. Selection of legal counsel									
3.2. Writing and revision of legal documents									
3.3. Presentation before regulatory and rating agencies									
4. IFC									
4.1. Analyses and clearances									
4.2. Negotiation									
5. Marketing Communications									
5.1. Communications to market									
5.2. Road Show									
6. Placement of bond									

Universidad San Martin de Porres

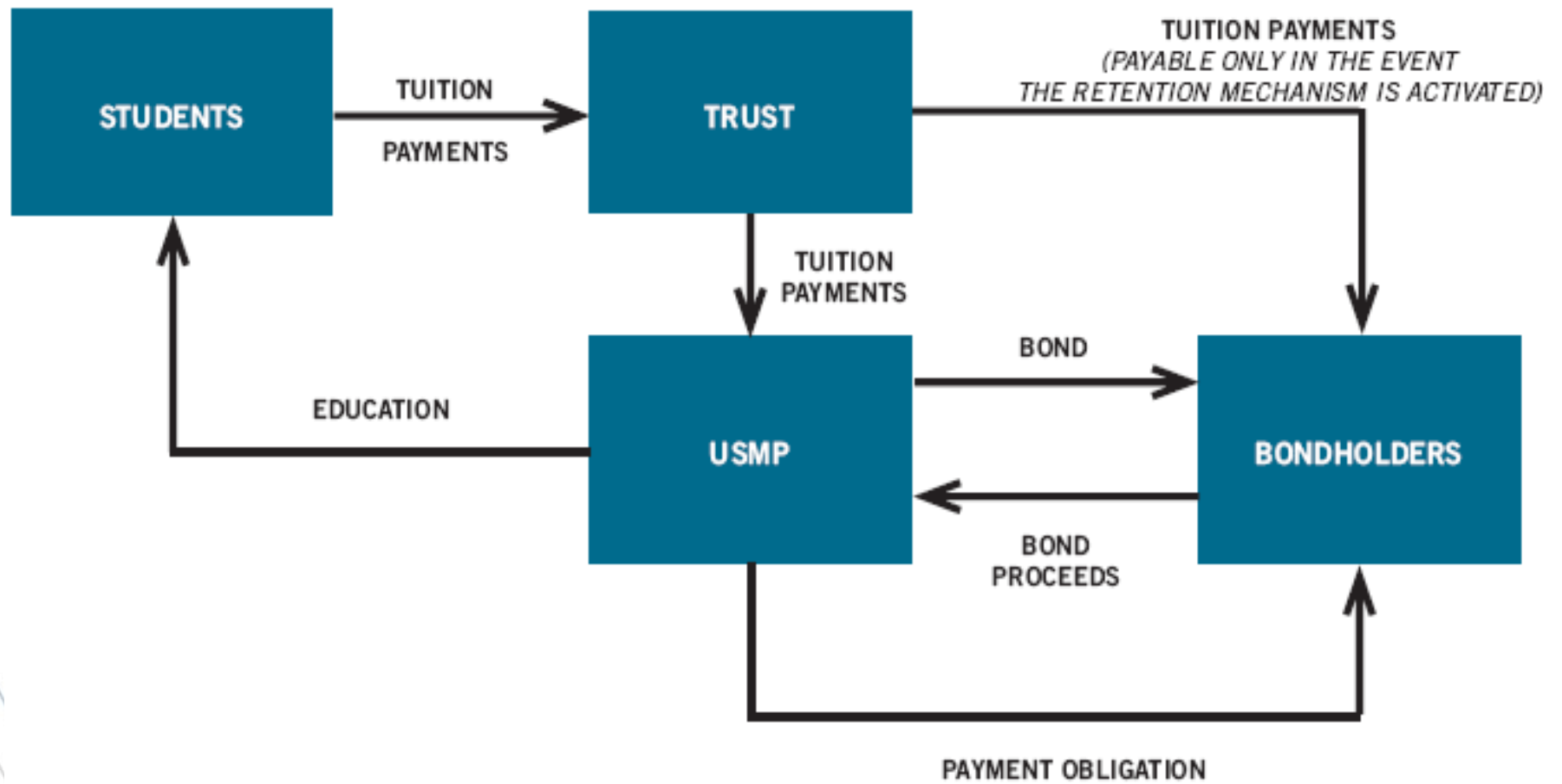
Objectives:

- **Founded in 1962, largest private university in Peru**
- **27,500 students, lower-middle income**
- **Modernization of the facilities in Lima and Establishment of regional campuses**
- **Restructuring of an existing syndicated loan.**

Structured Finance Solution: a structured bond

- **July 2005: First tranche of a AA+ USD 30m structured bond program**
- **Transfer of USMP's right to the future tuition payments of students. Future tuition payments serve as security to the bondholders**
- **Oversubscribed issue with a pricing at Libor + 300 bps**

USMP – structured bond program



Other IFC initiatives – Risk sharing agreements

- **A specific line of business, such as student loans or loans to education institutions.**
- **Agreements between IFC and partners to originate more of these loans while sharing the risks**
- **Predetermined procedures and criteria to originate and service the loans.**
- **Loans remain on the originator balance sheet and benefit from an IFC guarantee**
- **The IFC guarantee covers a portion of the losses on the loan portfolio.**
- **Very flexible structures with an infinite number/variety of risk sharing profiles**

The Ghana schools project

- **Strong demand for private education in Ghana has resulted in tremendous growth in the number of private schools.**
- **IFC designed with The Trust Bank a financing facility geared towards providing local currency funding to private K-12 schools in Ghana.**
- **IFC provides a partial guarantee to The Trust Bank on loans extended to finance construction, purchase of educational materials, and other capital expenditures.**

The Ghana schools project: Outcome

- **The project will enable The Trust Bank to increase the size and tenor of their financing to private schools.**
- **The project will enable private primary and secondary schools in Accra to expand and improve their financial and managerial capacities.**
- **This is complemented by a Technical Assistance program, which will improve the quality of education by setting a standard for the private sector and improving the business environment for private education.**
- **The project will also enable The Trust Bank to build its track record in the Education sector.**

The student loans projects

- **There is a strong demand for student financing in emerging markets. However there is a general lack of interest from local financial institutions because of the absence of relevant performance track record.**
- **IFC is currently supporting EDU Loan in South Africa through direct lending and a partial guarantee program and has structured a risk sharing agreement with Citibank for students of NIIT in India.**
- **IFC is actively looking for opportunities in view of the strong developmental impact of student financing.**

The EDU Loan project

- **Started in 2000 in South Africa – initial IFC investment US\$2.8m**
- **Payroll-based lender – collections through payroll deductions**
- **Access to University and Professional training**
- **Loans up to US\$650 –repayable within 12 months**
- **Low Delinquencies (less than 2%)**
- **Currently 72,000 students – expected to reach US\$ 40 million and 97,000 students by end of 2006.**
- **IFC currently working on a PCG for a bank credit line**

The NIIT project

- IT school in India founded in 1981 which has trained 1 million students.
- Financing for tuition and related expenses for a 3 year program.
- Qualified jobs with an income more than double their parents'.
- Citibank already a lender, but had exposure and risk limitations.
- Loans: 7 year maturity with partial interest payment for 3 years followed by equal payments for the next 4 years.
- IFC provided a mezzanine guarantee of 10% above a first loss coverage provided by NIIT and Citibank of 11%.
- The risk on the remaining 79% was assessed to be investment grade.

IFC Value-Added

