Structured Finance

Duoc

HIGHLIGHTS

- **First competitively priced private sector student loan program in Chile targeting mainly low-income students**
- **Risk participation facility among DuocUC, one of the largest private professional and technical education institutions in Chile, Banco de Crédito e Inversiones, and IFC**
- **Innovative program with a strong demonstration effect**

THE PROJECT

The project is the first private sector student loan program in Chile targeting a significant portion of low-income students enrolled in tertiary professional and technical education. The tertiary education market in Chile is highly privatized and, to a large extent, funded by tuition fees. Most of this private expenditure is concentrated in the higher-income population. Government spending on tertiary education has declined over time such that Chile today has the lowest public funding in Latin America of tertiary education relative to GDP. Although there are several potential sources of financing for tertiary education, including loans from private banks and government programs, existing sources of financing have various limitations that have prevented them from reaching poorer families. The project addresses this gap by focusing on students from the lowest income quintiles.

PROJECT SPONSOR AND ARRANGERS

IFC and BCI Securitizadora—a subsidiary of a leading Chilean commercial bank, Banco de Crédito e Inversiones (BCI)—co-arranged the transaction and, together with DuocUC, developed the targeted lending program.

The project sponsor, DuocUC (originally founded in 1968 by the Pontificia Universidad Católica de Chile), is one of two leading Chilean private providers of tertiary professional and technical education. Its current enrollment is approximately 42,000 students, capturing 19% of the non-university tertiary education sector in Chile. It also accounts for more than 10% of all students from the lowest income quintiles enrolled in the tertiary education sector. A significant increase in student enrollment over recent years has highlighted the need to expand financing options available to students, especially to those from lower income brackets or those not eligible for government-sponsored programs.

BCI is the fourth largest Chilean bank, accounting for 13% of the total assets of the banking sector. It is organized around three major business areas: wholesale banking, SME banking, and retail banking. In 2004, BCI acquired what is today Banco Nova to increase its presence in the consumer loan segment. The student loan program will be administered by Banco Nova.

BCI Securitizadora is an affiliate of BCI that structures and issues asset-backed securities in the domestic market. In addition, the company sells loan portfolio valuation and structured risk allocation services. Last year, BCI Securitizadora placed more than 70% of the total amount of the structured debt sold in Chile.

FINANCING OBJECTIVES

The rationale for the program was DuocUC's goal of increasing enrollment of low-income students. The maximum size of the loan portfolio, CLP 27 billion (US$ 51.3 million equivalent), covers expected student loan demand for three consecutive annual student cohorts. Loans are competitively priced at an annual interest rate of approximately 9%. The maximum term of the risk

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participation facility is 17 years, with a loan ramp-up period of 7 years. The program is structured to accommodate follow-on projects in order to increase financing in subsequent years should demand materialize.

THE STRUCTURE

Loans to qualified students are made by BCI and administered and collected in cooperation with DuocUC. As part of this lending program, IFC, as senior risk participant, provided a CLP 10.1 billion (US$19.2 million equivalent) Risk Participation. Under the terms of the facility, DuocUC absorbs all principal losses in an amount up to 25% of the portfolio size (the "first loss threshold"), with IFC and BCI each covering 50% of all losses after the first loss has been exhausted. The first loss threshold reduces the risk of losses to BCI and IFC. More importantly, the credit enhancement offered by the IFC structure reduces the interest rate charged by BCI on loans. The program was structured to mitigate risks by (i) requiring that all loans be signed by a sponsor, (ii) requiring that both BCI and DuocUC screen and monitor the students and their sponsors, (iii) reducing the financial burden on students and sponsors through a competitive interest rate, (iv) controlling the growth of the program in case of unexpected events, and (v) incorporating a mandatory minimum principal and interest payment during each student's period of study and a limited grace period for principal repayment after graduation.

OUTCOME

Increased access to tertiary education, especially in the lowest income quintiles and in the professional and technical sectors, is the key impact of this innovative student loan program. The project participants expect enrollment in tertiary education of students from the two lowest income quintiles to increase by an estimated 7%. The program is also expected to have a strong demonstration effect both for the private sector and the government, showing that lower-income students can be reached by well-structured private lending initiatives. It is hoped that this program will lead to other similar student loan programs available to low-income students attending other higher education institutions.

TERMS AND CONDITIONS

Amount of the Portfolio	CLP 27.0bn (US$51.3mn equivalent)
Currency	Chilean Peso
Issue Date	June 26, 2007
Origination Period	7 years
Termination Date	2024, or the date on which the sum of all disbursements under the IFC guarantee reaches the maximum guarantee amount
Maximum Reference Portfolio Balance	CLP 27.0bn (US$51.3mn equivalent)
Maximum IFC Guarantee Amount	CLP 10.1 bn (US$19.2mn equivalent)
Enhancement	IFC covers 50% of all losses in excess of 25% first loss threshold