

STUDENT LENDING THROUGH MICROFINANCE: LESSONS LEARNED

Higher Education Finance Fund - HEFF

Lorna Li - Omtrix

THE HIGHER EDUCATION FINANCE FUND

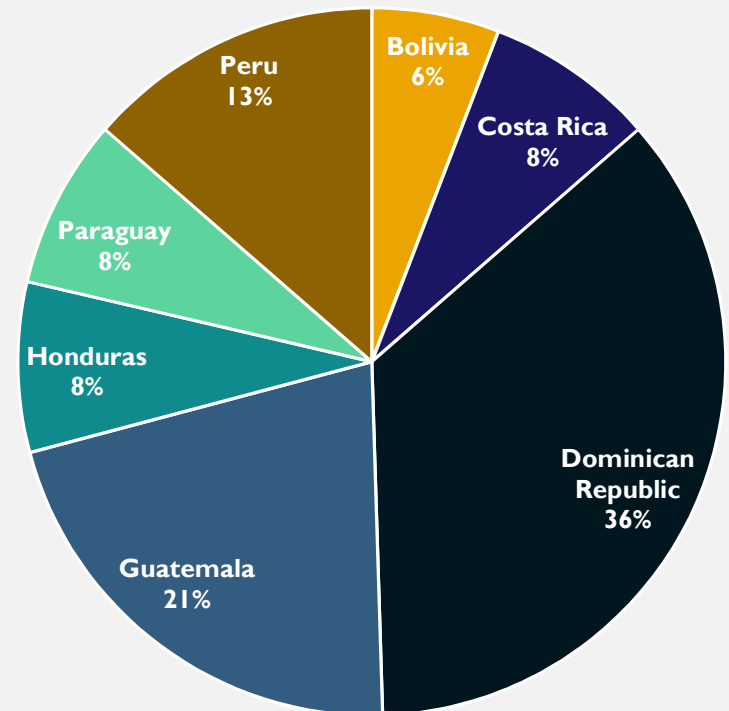
Purpose: To finance higher education for low-income people

- Leverages existing MFIs and other bottom-of-the-pyramid institutions
- 10-year, \$33 million fund incorporated in December 2011
- \$1.6 million technical assistant facility (TAF)
- Pay back based on Cash Flow Analysis taking into consideration selected career
- General Manager for fund and TA: **Omtrix Inc**, fund manager and financial consultant headquartered in Costa Rica and working in the MF industry since 1995



HEFF AT A GLANCE

- Equity funders: KfW, Norfund, SIFEM/OBVIAM, LMDF, CAF, Calvert
- Debt funders: OPIC, KfW, SIFEM/OBVIAM, Calvert, Deutsche Bank
- Grants: USAID, MasterCard Foundation, KfW
- 10 microfinance institutions, 7 countries
- Total Portfolio as of September 2017: \$25.75 million

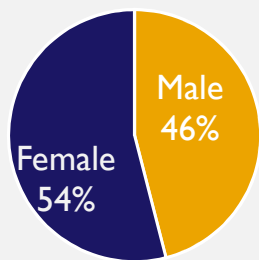


TOTAL STUDENT LOAN PORTFOLIO

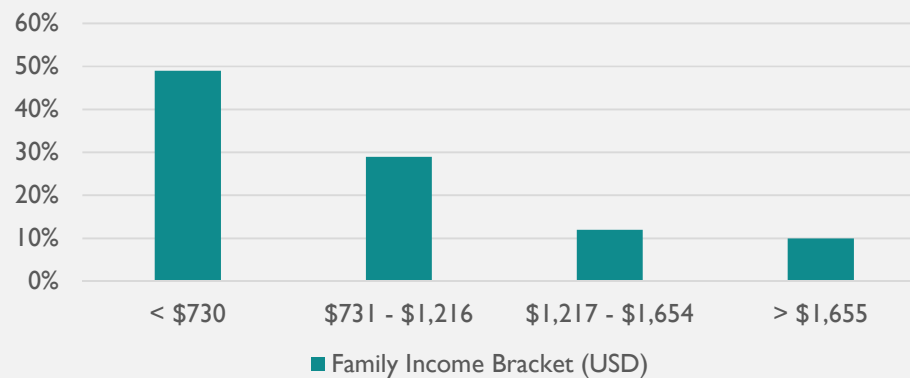
As of September 2017...

- 5,401 students have been financed
- \$14.9 million has been disbursed to students

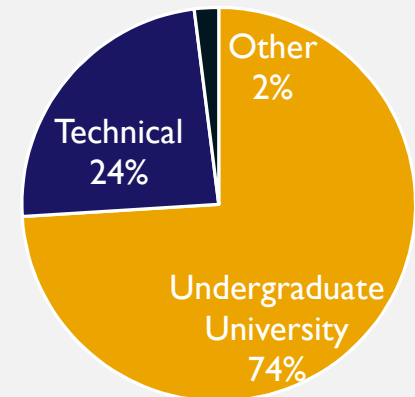
Gender Breakdown



Family Income Bracket (USD)



Higher Education Center by Type



SPOTLIGHT: FUNDAPEC

HEFF'S LOAN TO FUNDAPEC

- Term: 9 years , 4 years grace
- Total amount: \$3.5 million
- Variable interest rate: Local rate + margin 3.46%. (Floor 10%)

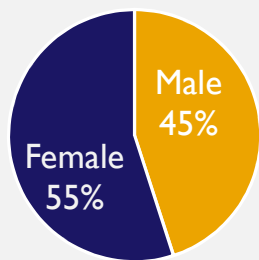
EIB's Loan to Fundapec

- Total amount: €5 million
- Term: 7 years
- Interest rate: below market conditions

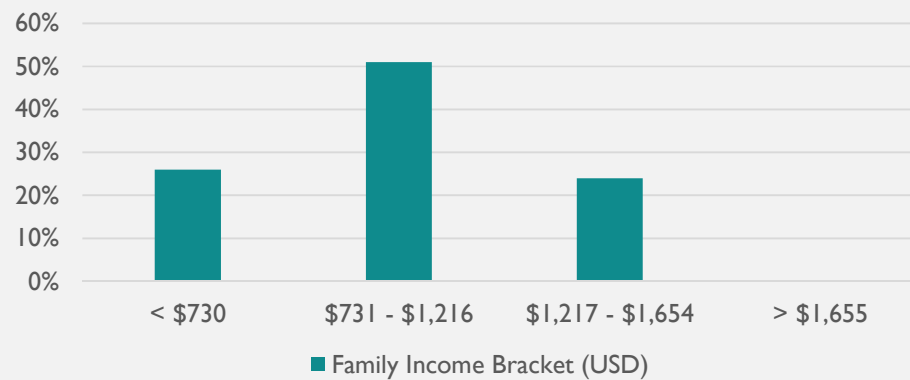
As of September 2017...

- 631 students have been financed (HEFF funds)
- \$2.8 million has been disbursed to students

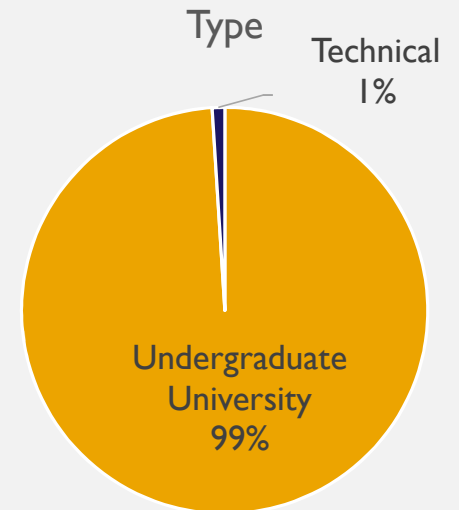
Gender Breakdown



Family Income Bracket (USD)



Higher Education Center by Type



LESSONS LEARNED

REACHING A NEW CLIENT

New market segment

- **Expectation:** Lend to children of existing clients.
- **Reality:** Issues of co-signer indebtedness, too small a market, children expected to run business.

- **Expectation:** Full-time students age 18 to 22
- **Reality:** Average age 25, part-time, working students

- **Problem** → Youthful clients, many new to the institution, do not respond to traditional media (radio, newspaper, etc.).
- **Solution** → Digital, dynamic advertising on social media (videos online, facebook, WhatsApp responsiveness)

REACHING A NEW CLIENT (CONT.)

New marketing channels and alliances

- **Alliances** with universities, technical institutes, and other higher education centers to meet latent demand
 - Reach students when they inquire about school
 - Pay school directly when disbursing loans
 - Synchronize payments with school calendar
- **Digital communication** with institution online, with quick responses and information disseminated via a student loans-only product page on facebook, on website, etc.
- **Messaging** on aspirations, investment in your future, not the technical details of the product.

BREAKING AWAY FROM TRADITIONAL STUDENT LOANS

- **Expectation:** Long term loans, double the length of study, grace period on principal payments during study
- **Reality:** Part-time working students don't want such long-term loans (or grace periods). Loans had to be adapted to meet clients' demands
 - Some full-time students did prefer the original loan product.
 - Preference between long term v. short term is also cultural (by country or target market segment)
- **Guarantors** are a necessary requirement (often parents), and some institutions asked for real guarantees from guarantors backing larger loans.

INTEGRATING THE PRODUCT INTO MFI'S OPERATIONS

Focus of Product Launch **Process**

Marketing: Take time to know your new market segment
Start with targeted regions/branches

Management: Lower margin product, branch managers may not fully embrace as they chase their quarterly goals.

IT: Student loans are data intense. Prepare IT systems for smooth integration.

Staff: Credit officers may be reluctant to place student loans

- Time intensive/fewer conversions
- Cyclical in nature

EVALUATING PRODUCT PROFITABILITY V. WORTHINESS

- Lower margin product has other value to board/executive management, such as
 - Reaching a new demographic, possibility of cross-selling products and growing market share
 - Meets social bottom line and fulfills institutional mission
 - Good for staff morale (particularly in cases where staff could access student loans on preferential terms)

CHAMPIONING THE PRODUCT INTERNALLY

Internal Champion critical to success. Institutions struggled until they truly empowered a product champion.



- Senior enough to be heard and respected
- Given the proper tools and incentives to succeed.
- In the early stages, *only* focuses on student loans.



- In some cases and where affordable, dedicated student loan credit officers who specialize in student loans.
- Team is given greater freedom and encouragement to work with schools and respond to students through non-traditional avenues, such as WhatsApp.

LESSONS FOR TECHNICAL ASSISTANCE PROGRAMS/CONSULTANTS

- Technical assistance programs should accompany the institution through product development and launch.
- On-going support of product integration at the institutional level is vital.
- Support on marketing for younger clients also useful (e.g. online videos and youth-focused branding)
- **Problem** → Methodology and market studies created pre-launch require adjustments post-launch to meet nuanced needs of market
- **Solution** → Design product *with* the institution. Consulting-intensive.

LESSONS FOR FUNDERS

- **Patient capital** that can wait for lengthy product implementation phases
- **MFIs Interested in TA;** provision of lines of credit in most cases was not needed.
- **Social returns** trump financial, as student loans are low-margin.
- **Risk absorption** as institutions will see student loans as “too risky” and may change the core of the product to avoid risk

CONTACT INFORMATION

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