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Student Loans Financial Instrument funded by European Social Fund (80%) and National Funds (20%)

BOV Studies Plus + intermediated by Bank of Valletta

Further Studies Made Affordable (FSMA)

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European Commission

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MDB MALTA DEVELOPMENT BANK

European Investment Bank The EU bank

Overview of Presentation

1. Developing the FSMA FI – the preparation process
2. Implementing the FSMA FI
3. Structure of the FSMA FI
4. The guarantee element
5. The interest rate subsidy element
6. Target groups and courses
7. Eligibility criteria for beneficiaries
8. Terms and Conditions of FSMA FI
9. FSMA portfolio build-up
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11. Key FSMA portfolio highlights

Developing the FSMA FI – the preparation process (1)

1. The Malta Development Bank (MDB) was entrusted by the Managing Authority (MA) as the Body to implement the FSMA FI in terms of Article 38(4)(b) of Regulation 1303/2013.

2. A Funding Agreement was signed between the MA and the MDB, specifying the MDB’s responsibilities as implementing body.

3. MA engaged the EIB FI Advisory Services to provide technical support and guidance throughout the preparation process.

4. According to the ex-ante assessment by EY for the MA, the market gap for study-related financing in Malta is estimated to vary between EUR 70 million for a one-year enrolment to EUR 201 million for a four-year enrolment.

Developing the FSMA FI – the preparation process (2)

5. The market gap was adjusted for the willingness for students to resort to bank loans with only 21% of students being prepared to consider bank financing. The adjusted funding gap amounted to between EUR 14,7 million for a one-year course to EUR 42,2 million for a four-year course (21% of whole market gap).

6. Ex-ante risk assessment of the multiplier ratio of FSMA:
   - The expected loss on student loans was based on the unsecured consumer NPL ratio (due to lack of data on student NPLs).
   - The consumer NPL ratio was further stressed to reflect the higher risk due to: (i) lack of current income and uncertainty of future income (ii) lack of credit history (iii) no collateral and no upfront contribution and, (iv) minimal and limited activity of banks in this segment.
   - Considering the above risks the FSMA expected loss was estimated at 25%, resulting in an FSMA multiplier ratio of 5.

Developing the FSMA FI – the preparation process (3)

7. FSMA Multiplier ratio = $\dfrac{1}{\text{guarantee rate}}$ $\dfrac{1}{\text{cap rate}}$

$= \dfrac{1}{0.80}$ $\dfrac{1}{0.25}$ = 5 times leverage effect

8. Erasmus+ Masters Programme:

Multiplier ratio = $\dfrac{1}{0.90}$ $\dfrac{1}{0.18}$ = 6 times leverage effect

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Developing the FSMA FI – the preparation process (4)

9. MA allocated EUR 2 million to this FI as a pilot project of which 55% (EUR 1,1m) allocated to guarantee fund and 45% (EUR 0,9m) to interest rate subsidy

    - The leverage of x5 targets a study loan portfolio of EUR 5,5m
    - In event of strong demand, the MA is prepared to allocate another EUR 1m, which would increase the total portfolio to EUR 8,25m

Developing the FSMA FI – the preparation process (4)

10. The transition from grants to FIs can be made smoother by combining the two: part grant to make the instrument more palatable for aspiring students and part loan on aided terms to enhance student access to bank financing.

11. Soft Market Testing – Meetings with all domestic banks to gauge their appetite for such a product and to obtain feedback on their experience with student loans.

Developing the FSMA FI – the preparation process (5)

12. The preparation and publication of the Call for Service for implementation of FSMA FI (https://mdb.org.mt/en/Schemes-and-Projects/Pages/Further-Studies-Made-Affordable.aspx)

    The Call included details on:

    - Features and Term Sheet of FSMA FI
    - The Call for Service
    - Eligibility criteria of bidders
    - Documentation to be submitted
    - Selection process
    - Operational provisions
    - Workshop for potential bidders to explain the FI and role of financial intermediary.

Developing the FSMA FI – the preparation process (6)

13. Evaluation and Selection of the financial intermediary –

- Stage I: selection criteria: basic requirements.
- Stage II: award criteria: qualitative analysis and detailed full diligence (technical and organisational capacity to deliver efficiently, pricing policy, financial standing).
- Bank of Valletta (BOV) ranked first out of three bidders.
- Appointment of the Appeals Panel made up of Independent senior officials from the Central Bank, the Ministry for Education and the Ministry for EU Funds.

Developing the FSMA FI – the preparation process (7)

14. Negotiation of the Operational Agreement and service level agreements between MDB and BOV covering:
    - Rights and obligations of the two Parties
    - Payment demand for interest payment subsidy
    - General conditions of guarantee
    - Right of clawback in case of excess payments
    - Recoveries
    - Portfolio inclusion and exclusion process
    - Know-your-client checks and Anti-Money Laundering Procedures, Data Protection
    - Reporting and monitoring
    - Marketing

Implementing the FSMA FI (1)

1. Launching of the FSMA FI on 3 October 2019 with signing of the Operational Agreement during a Press Conference.

Implementing the FSMA FI (2)

2. BOV is responsible for client due diligence process, student loan appraisal, assessment and selection of loan applications under pre-agreed conditions, and servicing of loans.

3. Reutilisation: during the availability period (up to end 2023) after repayment of the loan in part or whole, the amount made available can be made available once again.

4. Evaluation and Monitoring by MDB; Regular Reporting by BOV (monthly and quarterly to MDB) and by MDB (quarterly to MA) during the programme period to assess the performance of the FSMA, ensure compliance with the applicable requirements, and evaluate the effectiveness of the FI and its impact on the target market.

Implementing the FSMA FI (3)

5. FSMA may be subject to audits by a number of Audit bodies, which may be held at the level of the MDB or at the level of BOV.

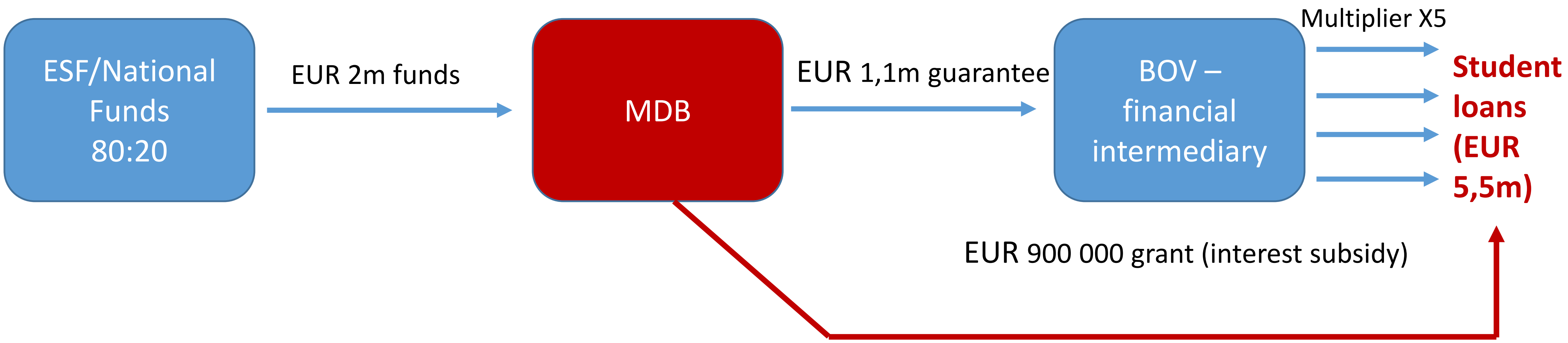
6. MDB to submit recommendations to MA for possible remedial action to enhance the FSMA performance or to address other issues as necessary.

7. Full disbursement of all eligible loans must be made by latest 31 December 2023.

8. The Funding Agreement between MA and MDB covering the implementation of the FSMA FI is valid till 31 December 2023.

    - At least 6 months before end-2023, MA and MDB to discuss whether to extend or terminate the agreement.

Structure of the FSMA FI

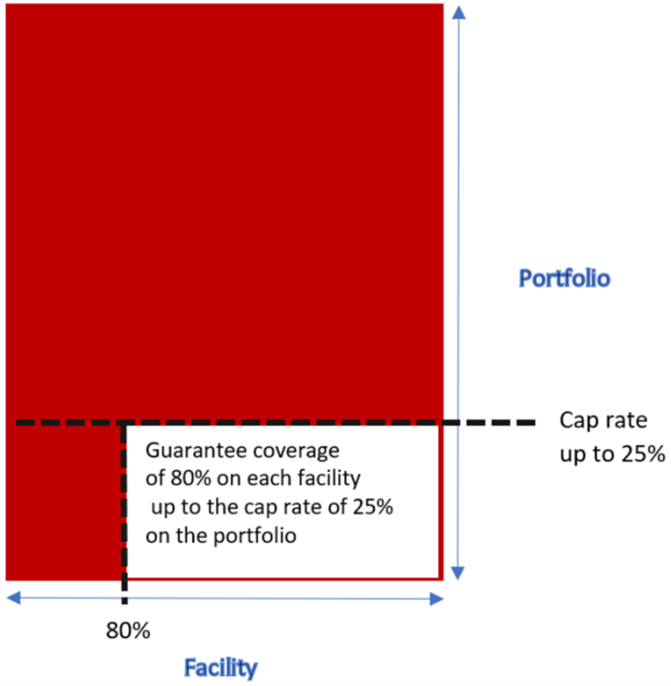


Guarantee element (1)

- The MDB Guarantee in favour of BOV constitutes a direct irrevocable and unconditional financial guarantee issued on a first demand basis.
- Guarantee covers 80% of the loss on each eligible student loan in the guaranteed portfolio up to a maximum of 25% of the total portfolio.
- MDB guarantee fund of EUR 1,1m enables BOV to generate EUR 5,5m of new SME loans (Leverage X5).
- No guarantee fee charged by MDB to BOV.
- The calculation of the aggregate amount that MDB may be liable to pay in terms of the guarantee, at any point in time =

actual portfolio volume x guarantee rate x guarantee cap rate

E.g. EUR 4m x 0.80 x 0.25% = EUR 800,000



Guarantee element (2)

- The benefit of the guarantee is passed on to eligible beneficiaries by way of:
  - No collateral requirement
  - No front contribution from borrower
  - Lower interest rate
  - Longer repayment period

- In the event that BOV has not disbursed the planned maximum portfolio by the end of the disbursement period (31 December 2023), the guaranteed amount shall be reduced proportionately.

- In the event that a student loan is included in the guaranteed portfolio and subsequently is discovered to be a non-eligible transaction, that loan may be excluded from the portfolio and will no longer benefit from FSMA FI.

Guarantee element (3)

- An event of default occurs when a student fails to meet a repayment obligation for at least 90 consecutive days (in line with CRR).
- In the event that BOV had already submitted a Payment Demand under the guarantee prior to becoming aware that the loan had become a non-eligible transaction due to circumstances which are beyond the control of BOV, (acting in good faith and could not, acting diligently, have become aware thereof prior to the date of the Payment Demand), that loan will remain covered by the guarantee.
- In the event that a student discontinues studies, the loan becomes a non-eligible transaction but will remain covered by the guarantee. Undisbursed funds will no longer remain available. BOV may request collateral to safeguard the transaction and may accelerate repayments.
- BOV may agree, if it deems fit, to restructure the loan in order to reduce the probability of default and to improve the collectability of claims.

Interest rate subsidy (1)

- The interest element during the moratorium period is fully covered by the Interest Rate Subsidy provided under FSMA and is paid by MDB to BOV quarterly.
- Moratorium period: duration of the academic course plus 12 months up to maximum of 5 years.
- Out of the total of EUR 2 000 000 resources allocated to the financial instrument, EUR 900,000 (45%) are allotted to the interest rate subsidy.
- This implies that no payments (both principal and interest) are due from beneficiaries during the moratorium, providing financial breathing space for the students during their studies and no risk of events of default for BOV.

Interest rate subsidy (2)

- The student must continue the full course throughout the moratorium period. In the event the student discontinues studies, he/she will not be eligible to receive any further interest rate subsidy as from the month of discontinuation of studies.
- Any interest subsidy claimed for a non-eligible loan must be refunded to MDB.
- If the loan has not been fully disbursed, the undisbursed funds will no longer remain available.

Target group and courses

The target beneficiaries for FSMA are:

- applicants for grants whose application was not accepted as demand exceeded available funding;
- applicants who indicate that they are not finding adequate financial support on the market;
- applicants who are discouraged from studying due to financial reasons; and
- applicants whose study areas or levels are currently not eligible for the assistance they require.

Targeted courses:

- Accredited courses in MQF levels 5-8
- Internationally-recognised courses

Eligibility criteria for beneficiaries (1)

1. No geographical limits are to be imposed with regard to the educational institution offering the accredited courses.

2. To be eligible for a loan, a Student shall satisfy one of the following conditions on the date of application:
   i. Is a Maltese citizen; OR
   ii. Is a national of an EU/EEA Member State or a family member of such EU/EEA national provided that such person has obtained permanent residence in Malta in accordance with SL460.17 and in SL217.04 respectively for EU and EEA nationals; OR

Eligibility criteria for beneficiaries (2)

iii. Is a national of an EU/EEA Member State who is in Malta exercising his/her Treaty rights as an employee, self-employed person or person retaining such status in accordance with SL460.17; OR

iv. Is a third country national that has been granted long-term residence status under SL217.05.

3. In the case of a loan issued in the joint names of a married couple, one of the couple needs to comply with one of the above eligibility criteria.

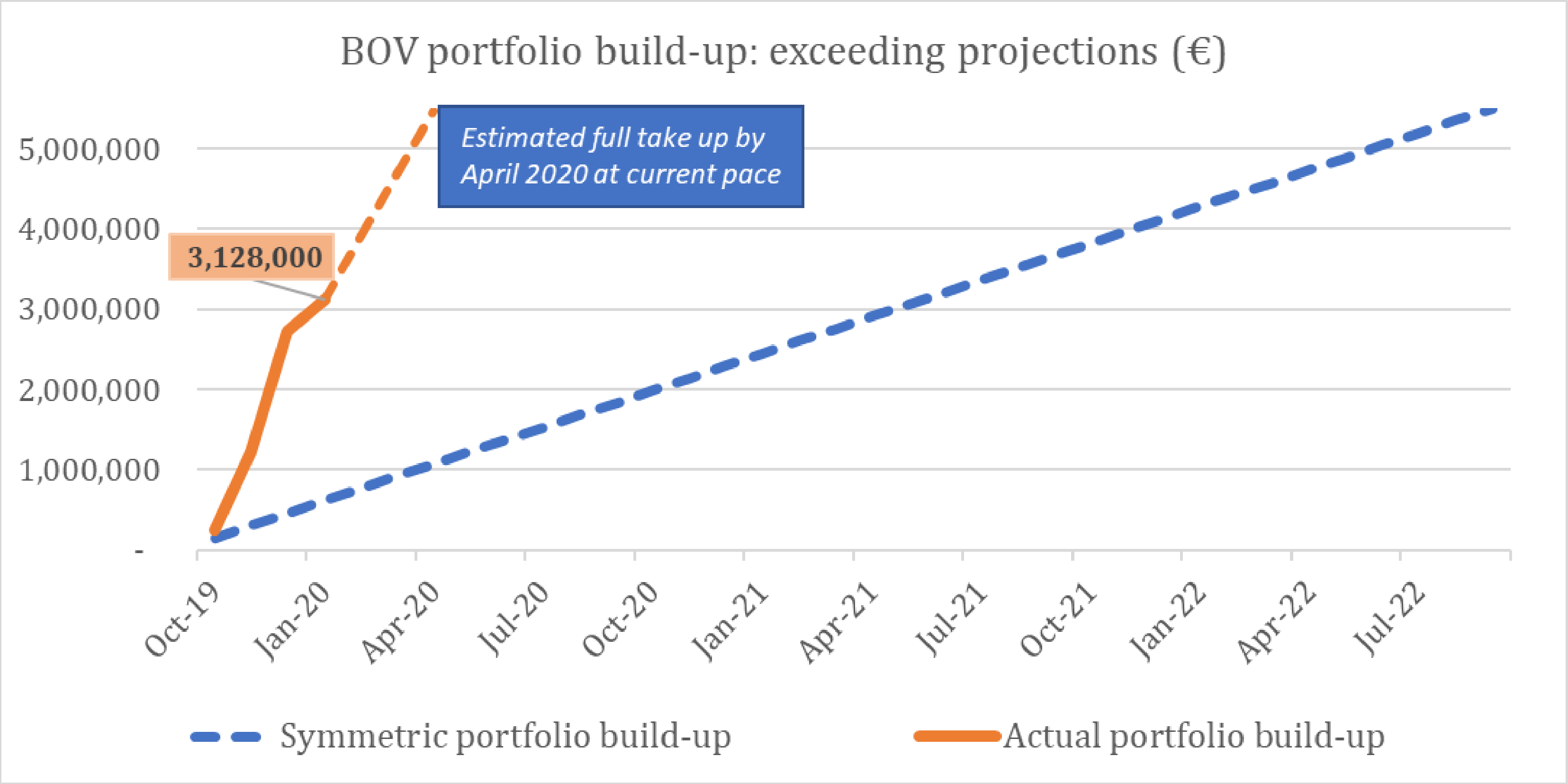
Terms and conditions (1)

- The purpose of the loans under FSMA is to finance students’ studies costs in Malta and abroad, including tuition fees, accommodation costs, subsistence expenses and other related expenses
- Full time, part time or distance learning study courses, in MQF 5-8, or internationally recognised certificates
- Guarantee rate: 80% Guarantee cap rate: 25%
- Maximum loan size: EUR 100 000
- Maximum term of loan: 15 years (moratorium period plus up to 10 years for repayment)
- Maximum moratorium period: 5 years

Terms and conditions (2)

- Interest rate:
  - FSMA during moratorium period: base rate +30bpts (currently 2.75%) – paid by MDB
  - FSMA after moratorium: base rate +50bpts (currently 2.95%)
  - Normal student loans = base rate +250bpts (currently 4.95%)
- No additional fees and processing fees to be charged.
- No collateral will be requested from the beneficiary (no life insurance cover requested)
- No up-front contribution will be requested from the beneficiary
- Drawings from the facility which are not utilised in accordance with the FSMA terms and conditions shall render the loan a non-eligible transaction under the FSMA and shall be excluded from the portfolio

FSMA Portfolio build-up - up to January 2020



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The impact of the FSMA FI on the size of student loans (1)

BEFORE

- BOV's student loan portfolio for the past 4 years shows that 80% of the loans were lower than EUR 5 000. This falls considerably short of the required finance for pursuing tertiary education, especially abroad.
- Less than 2% of loans in BOV's student loan portfolio were for amounts exceeding EUR 20 000 (max EUR 30 000).
- Heavy reliance was made on parents income and guarantees.
- Clear market failure as students lack collateral while they represent a higher risk.

Number of Student Loans per loan size bracket from January 2016 - March 2019

Value Size Brackets per Loan	2016	2017	2018	2019	Total	% of total
0 – 2,500	82	65	42	5	194	39%
2,501 – 5,000	72	51	64	13	200	40%
5,001 – 10,000	9	21	8	1	39	8%
10,001 – 15,000	18	13	7	0	38	8%
15,001 – 20,000	4	7	4	0	15	3%
20,001 – 25,000	1	2	2	0	5	1%
25,000 – 30,000	1	2	1	0	4	1%
	187	**161**	**128**	**19**	**495**	**100%**

The impact of the FSMA FI on the size of student loans (2)

AFTER

- The average size of student loans under FSMA FI currently stands at EUR 48 694
- 73% of the loans are EUR 40 000+ (max EUR 97,000)
- No collateral requirement
- No reliance on parents income and wealth
- No front contribution from borrower
- Enhanced access to loans, especially for larger amounts

Key FSMA portfolio highlights - up to end 2019 (1)

MQF level of study	No of Loans	Aggregate Value of Loans	% of portfolio	Average Loan Size
MQF 5	1	22 500	2%	22 500
MQF 6	7	139 920	13%	19 989
MQF 7	10	345 973	18%	34 597
Internationally recognised courses	38	2 218 519	67%	58 382
Total	56	2 726 912	100%	48 695

Key FSMA portfolio highlights - up to end 2019 (1)

Area of study	% of portfolio
Pilots	64%
Veterinary	2%
Others	34%

Gender	% of portfolio
Male	82%
Female	18%

Age Group	% of portfolio
16-24	77%
25 and over	23%


financial instruments
revolving
capacity building
added value
ERDF
funding agreement
ESF
EU guidance
governance
ex-ante assessment
technical support
seminars
leverage
financial intermediaries
microfinance
co-financing
case studies
investments
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business plan
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