Vittana's First 1,500 Student Borrowers

The spark to reach 100 million new clients worldwide

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Executive Summary – The Five Myths of Student Lending:

As financial service providers to hundreds of millions of poor and low-income[1] families, microfinance institutions (MFIs) are uniquely positioned to reach the 100 million youth worldwide who lack the resources to complete higher education. But until recently, MFIs had done little to tap into this market, discouraged by a set of common misunderstandings about student lending. By creating and funding high-performing student loan products at 19 MFIs in 12 countries, Vittana, a U.S.-based product development non-profit and capital provider, has debunked the **Five Myths of Student Lending**:

1. **Students won't repay:**

   Vittana partners have disbursed over $1.2M to more than 1,600 students in two and a half years. The portfolio has $430,000 outstanding; PAR (Portfolio at Risk) 30 is 3.51%.

2. **Students cannot find co-signers:**

   All of Vittana's more than 1,600 students have co-signers. In a 2011 Vittana survey, 94% of responding microfinance clients expressed a willingness to co-sign a student loan for their child; 74% of borrowers knew other family or community members who would be willing to co-sign a loan for the borrower's child.

3. **Student loans aren't sustainable:**

   Vittana partners charge slightly concessionary interest rates, allowing them to attract student interest while building sustainable products with healthy PARs. A representative sample:

MFI	Country	APR[2]	Δ from business loan	PAR 30
EDAPROSPO	Peru	18%	-6%	0%
Fundación Paraguaya	Paraguay	24%	-2-6%	1.22%
XacBank	Mongolia	21.6%	-0%	0%

[1] CGAP Occasional Paper No. 8 (2004)
[2] This is an interest rate-only calculation.

Vittana has also done preliminary modeling to demonstrate the sustainability of student loan products at MFIs—under varying scenarios with reasonable assumptions, they are profitable. In one scenario, assuming standard operational costs and a 10% cost of capital, a student loan program operating at scale (10,000 clients) is profitable with an annual interest rate of 15%.

4. **Student loans will be too large and too long:**

   In order to reduce drop out risk and ensure manageable loan sizes, the pilot and basic stages of Vittana's product model focus on vocational education and the final two years of university education. As a result, the average Vittana loan is $795 and has a term of 18 months.

5. **Without guaranteed jobs, student loans will not be a viable product:**

   Vittana country strategy takes employment likelihood into account—looking at overall unemployment rates and trends in GDP growth. We have also created products that target students in specific professions (e.g. health professions in India, welders in the Philippines).

   While definitive employment data is not yet available for all Vittana programs, in Nicaragua, home of one of Vittana's first programs and for which probability of employment was not taken into account, 76% of Vittana graduates had found work related to their program of study and 78% reported a positive employment change such as a promotion or raise as of August 2011.

Vittana will use data from our partners' successes and failures to ignite student loan markets around the world. By encouraging greater competition and innovation in student lending, Vittana's capital and student loan expertise will help MFIs and other financial institutions reach 1 million unserved young people by 2015.

Introduction:

Mauda Martínez, a 26-year-old student at the Universidad de Occidente in Nicaragua, is the first in her family to go to university—her mother worked as a vendor and her father is disabled. Mauda had been paying for school with a job at a customs administration company but it didn't pay enough to cover the cost of defending her thesis and receiving her degree; without a degree, she knew it would be difficult to convince her employer to give her the promotion and raise she deserved. Family members promised help, but they couldn't say when their money would be available. Then Mauda heard about a student loan program at AFODENIC, a local MFI. Through its partnership with Vittana, AFODENIC offers loans to students at 10% APR. An $815 loan helped Mauda become a university graduate. Her degree earned her a promotion and, more importantly, a raise: less than one year after graduation, she already makes 130% of her previous income.

Growing up poor in Himalayan City, Philippines, Stephen Lumanog used to help his mother sell food around their neighborhood to earn extra money. Now 22, Stephen was earning about $160 per month as a junior welder at a local sugar company. A promotion to certified welder would help him earn a raise and provide a more comfortable life for his family, but the required training was too expensive. Fortunately, Stephen's mother is a client of the Negros Women for Tomorrow Foundation (NWTF). After NWTF partnered with Vittana to develop a student loan product for post-secondary education, Stephen borrowed $160 to attend a three-month welding course. He is now employed as a certified welder, earning $210 per month, a 130% income change just six months after graduating from his training program.

Mauda and Stephen are not unique. Millions of young people around the world cannot complete post-secondary education, leaving valuable, income-generating skills unlearned and years of higher wages permanently out of reach. The demographics are chilling: most of the productive capacity of the next generation is being left underdeveloped. As financial service providers to hundreds of millions of poor and low-income[3] families, MFIs are

[3] CGAP Occasional Paper No. 8 (2004)

uniquely positioned to address the most significant barrier to education these young people face: a lack of money to pay tuition and unlock a more prosperous future. But the vast majority of MFIs do not lend to youth—and with some notable exceptions, even fewer MFIs offer products specifically designed to finance the costs of post-secondary education. Vittana estimates 100 million youth[4] worldwide lack the ability to pay for school. With such a massive market waiting to be tapped, why aren't MFIs lending for post-secondary education?

When Vittana was founded in 2008, CEO Kushal Chakrabarti hypothesized that the answer lay in a tricky Catch-22. Because students are assumed to be a high credit risk—most do not work full time and are more mobile (i.e. harder to track) than micro-entrepreneurs—MFIs are nervous about extending credit to them. But even if the MFIs were willing, their own sources of capital (local and multinational banks, MIVs, etc.) will not allocate funds for student loans until they see a proven track record of repayment. Without capital, though, MFIs lack the resources and incentives to innovate in the area of student lending and create the track record that funders want to see. The industry remained stuck, shutting out a large customer segment.

Vittana set out to break this cycle by offering MFIs interest- and risk-free capital, along with student loan product expertise, to create the needed track record. Two and a half years after Vittana's launch, **19[5] MFI partners have lent over $1.2 Million USD to more than 1,600 students[6]**. And the students are paying us back. **Vittana's PAR 30 is 3.51%[7]**. In Latin America, students with average monthly incomes of $350 borrow an average of $815 to complete up to 24 months of school. In Asia, where most Vittana students are not working when they receive Vittana loans, the average loan size is $500. Vittana recently launched its first loan product in Sub-Saharan Africa, where students are borrowing an average of $650 to finish their education in professions like nursing and accounting. **The**

[4] Number of youth in ~$4/day demographic who have completed secondary school but are not currently entering tertiary education.
[5] Please see Appendix A.
[6] As of October 31, 2011
[7] As of September 30, 2011

potential for transformative impact is clear: on average, Vittana students project that completing their education will triple their earning power, a projection that conservatively translates into an average 10-year ROI of 2,023%.[8]

We see our early growth, current strategy for expansion, and vision for future market creation as distinct progressive steps in the development of the student loan market. After showing that student loans are in demand, sustainable, and socially impactful, Vittana spent 2011 building a larger network of partner MFIs, increasing MFI familiarity and comfort with student lending, developing a more robust understanding of student demand, and keeping repayment rates high across a diverse group of MFIs, countries, and cultures. The stage is set for us to bring some of our products to scale, and each one will bring us closer to our goal: to ignite student loan markets across the developing world to reach 1 million unserved young people by 2015.

Vittana 2009 – 2010:
Will MFIs lend to students?

In 2009, Vittana set out to break the Catch-22 by showing that MFIs would lend to students and students would repay. We also aimed to prove the viability of a very basic product model: 1) offer students an interest-only grace period, 2) focus on vocational education and the last years of college, and 3) require a parent or close relative as a co-signer.

Vittana Student Loans 2009 - 2010				
MFI	Country	2009	2010	**Total**
Fundación Paraguaya	Paraguay	9	245	**254**
AFODENIC	Nicaragua	53	150	**203**
EDAPROSPO	Peru	3	40	**43**
XacBank	Mongolia	4	66	**70**
Binh Minh / SEDA	Vietnam	9	122	**131**
Fundación CREHO	Honduras		3	**3**
EducaPro	Bolivia		12	**12**
NWTF	Philippines		7	**7**
Total		**78**	**645**	**723**

[8] Defined as incremental earnings/cost of loan. Assumes student will achieve 80% of self-reported income increase (trend reflected in August 2011 survey of 90 Vittana graduates in Nicaragua).

Will Students Repay?

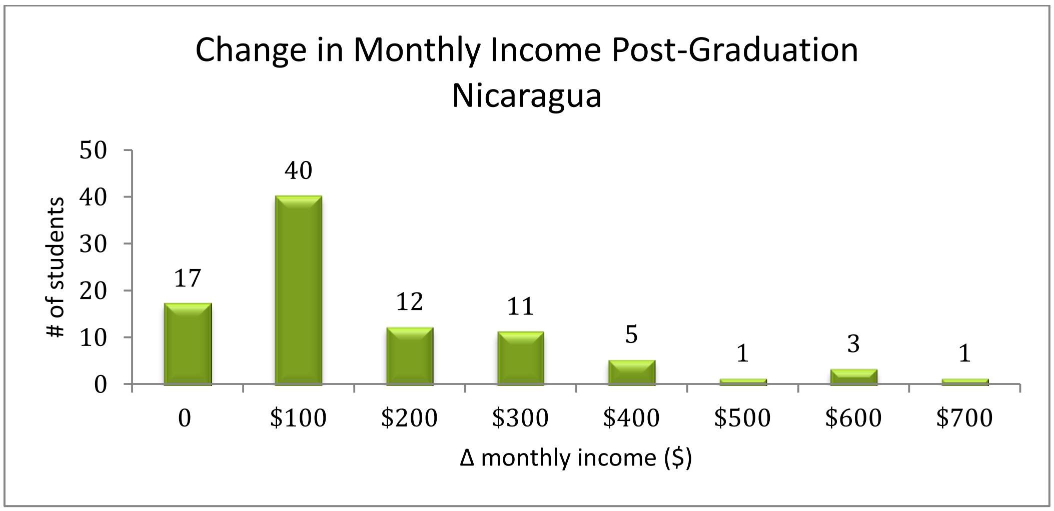
By the end of 2010, our first eight partners had demonstrated that, with the right support from Vittana, MFIs were willing to test a basic student loan product. Vittana's early loan portfolio also formed the beginning of a successful track record of on-time repayment: at **EOY 2010, Vittana's overall PAR 30 was 3.20%.**

Vittana PAR - EOY 2010				
MFI Name	Country	# Active Loans EOY 2010	Outstanding Balance	PAR 30 - 180
AFODENIC	Nicaragua	107	$78,279	**6.19%**
Binh Minh / SEDA	Vietnam	104	$37,783	**0.00%**
EDAPROSPO	Peru	26	$19,501	**0.00%**
Educa Pro	Bolivia	7	$5,710	**0.00%**
Fundación CREHO	Honduras	3	$8,100	**0.00%**
Fundación Paraguaya	Paraguay	52	$34,929	**3.02%**
NWTF	Philippines	7	$1,122	**0.00%**
XacBank	Mongolia	15	$5,009	**0.00%**
TOTAL		**321**	**$190,433**	**3.20%**

Early Impact:

Vittana's first students provided important indicators of the social and economic impact of student lending. When students report their current monthly income to Vittana, they also report the income they *expect to earn* once they have received their degree or certification. The expected income changes are impressive. In Asia, where an average Vittana student earns $127 per month, the average expected change in income is 438%. In Latin America, the average Vittana student earns $315 monthly and anticipates that a university degree or technical certificate will result in a 266% change in earning power. Projections can be optimistic; in creating a model to test the impact of this income increase over time, we made conservative assumptions about how much and how soon the increase will actually be felt. Using these assumptions, comparing income increases over a span of 10 years to the cost of the loan, the average projected ROI for Vittana students is 2023%.

In addition to modeling theoretical impacts, we have begun to interview early Vittana graduates to verify actual changes in their income. During the summer of 2011, a Vittana Fellow (in-country, professional level volunteers) spent three months in Nicaragua interviewing and surveying 90 Vittana borrowers who had completed their education and received a degree or certificate. The findings suggest that the full economic benefit of a degree is not realized immediately but that, as the graphic below shows, the degree has *some* immediate positive effect on income for nearly every student.



The median monthly income for these students *before* receiving their degree was $220 and the median *post-graduation* income was $355, a 161% change in income within 12 months or less of receiving a degree.

While students reported varied changes in income, over 80% also reported multiple non-economic benefits to using a student loan to finish their studies.

Now that you have a college degree…	**% Yes:**
…is it more likely other members of your family will attend college?	87%
…do you feel you have more overall opportunities in life?	83%
…do you feel more empowered to make decisions?	88%

Vittana 2011
Re-focusing strategy to optimize for growth

Proving the viability and social impact of the Vittana model was energizing. But to make meaningful progress, it was clear we needed to do more. Our products were not growing as quickly as desired, new MFIs were interested in working with Vittana but lacked the organizational bandwidth to engage in product development, and we needed more concrete data on student demand.

First, we identified countries with high potential impact and capacity for scale. Limiting our scope to pre-emerging, emerging, and newly industrialized nations, Vittana reviewed economic, education, and microfinance statistics in three regions: South America, Asia/MENA, and Sub-Saharan Africa. We looked for jobs growth that could employ new graduates, an education infrastructure to produce well-qualified candidates, and a robust microfinance industry to provide partners for Vittana.

Countries were scored in nine categories; those that scored high in a majority of the nine categories and low in fewer than three were eligible for inclusion in the first tier.

Vittana Country Priorities – First Tier		
Latin America	Asia / MENA	Sub Saharan Africa
Bolivia	India	Ghana
Mexico	Indonesia	Kenya
Peru	Jordan	Rwanda
	Philippines	

There is one exception worth noting. Despite Rwanda's categorization as a Least Developed Country, strong GDP growth and recent cuts to the public Student Financing Agency made it a priority in Sub-Saharan Africa.

With target countries selected, Vittana staff hit the road to meet with MFIs in person. Visiting 40 MFIs in 10 countries quickly confirmed what our first 18 months had already suggested: the "no track record, no capital" Catch-22 only partially explains the dearth of active student loan products at microfinance institutions. Conversations with MFI CEOs, finance managers, and lending directors made it clear that limited capital and concerns about repayment were significant deterrents to starting a student loan program. But it was a lack of know-how—characterized by uncertainty about student demand and misconceptions about the complexity of student lending—that kept MFIs from launching a product they otherwise agreed was "a fantastic idea" and something their clients "could definitely use." When asked to identify reasons for their hesitance, MFI CEOs across a diverse set of continents, countries, and institutions listed a consistent set of assumptions:

- University is too expensive—loan sizes will be too big.
- Students move around a lot and will be hard to track after they graduate.
- Students don't have income while they're in school, so they won't make payments while they are studying.
- Students will have difficulty finding co-signers or guarantors for their loans.
- We'll have to collaborate with schools to set up a program, which will be too time consuming.
- Students don't have any credit history; they won't want to borrow in their own names.

To counter these assumptions and improve our understanding of student demand, Vittana invested heavily in market research. We designed two student loan survey templates, one for distribution to MFI clients, another for students and youth. We also trained Vittana Fellows on best practices for facilitating client and student focus groups. Over the course of 2011, Vittana gathered input from more than 2,500 microcredit borrowers, university and vocational students, and other young people. The results were clear and powerful.

Of responding microfinance clients:

- 90% were interested in a student loan to pay for their child's higher education.

- 94% were willing to co-sign a student loan for their child.
- 74% knew other family or community members who would be willing to co-sign a student loan for their child.
- 68% percent said they knew of no other place from which to borrow money for higher education.
- 86% were confident that the young people in their family would feel comfortable interacting independently with an MFI.

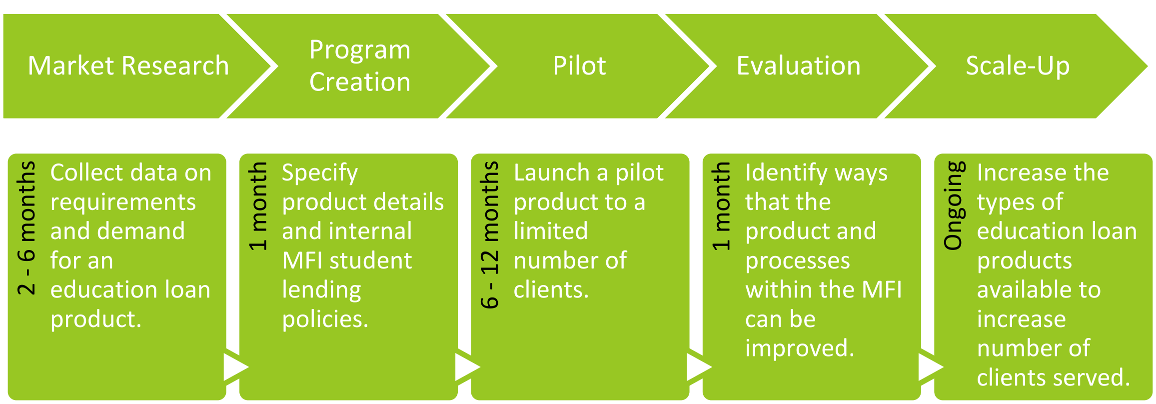
Of responding university and technical school students:

- 91% expressed an interest in using a loan to help them finish their studies.

Buoyed by a clear mandate from students and clients, the Vittana team worked with MFIs to develop and design 14 new student loan products in 2011 (11 have launched and three are in the final stages of development).

Loan Product Development Matched to Capital Deployment

To catalyze the long-term success of the student loan market, Vittana uses a product development strategy that carefully balances innovation with risk management and matches an appropriate form of capital to each stage of development. Our model has five distinct stages: market research, program creation, product pilot, evaluation and iteration, and scale-up.



As an MFI progresses from the evaluation to scale-up stage, Vittana encourages a gradual evolution of both the loan product and the blend of capital sources used to finance it. At each step, the goal is for MFIs to take advantage of Vittana's risk-free capital to become comfortable with an increasingly inclusive, high-impact student loan, and to use non-Vittana capital as a funding source for proven student loan products.

Pilot Product

The **pilot product** is intentionally low-risk, giving MFIs a chance to become comfortable with the process of working with and lending to youth. This also gives MFIs an opportunity to explore relationships with universities and other educational institutions and familiarize themselves with the specific needs of students in their area. The structure of our pilot products is generally consistent (with small customizations) across MFIs of varying region, size, and regulatory status.

ANS - Indonesia (08/2011)

- 6 - 36 months; Max loan: $1,700
- Exclusively for final year of university or vocational school.
- 12-month interest-only grace period
- 21.4 - 31.7% APR; Available to GENERAL PUBLIC

BancoFie - Bolivia (07/2011)

- 6 - 36 months; Max loan: $2,500
- Eligible use of funds: tuition, thesis costs, documentable expenses
- 6-month interest-only grace period for students in last year of education
- 14% APR; Available to GENERAL PUBLIC

FINCA Perú - Peru (06/2011)

- 6 - 36 months; Max loan: $2,000
- Borrower / guarantor must be client w/ 2+ years group borrowing history
- 1/2 of educational period must have been completed prior to loan.
- 24% APR; Available to CLIENTS / FAMILY MEMBERS

PMPC - Philippines (07/2011)

- Term: 6 - 36 months; Max loan: $1000
- Eligible use of funds: tuition and fees
- No interest-only grace period
- 24.6% APR; Available to GENERAL PUBLIC

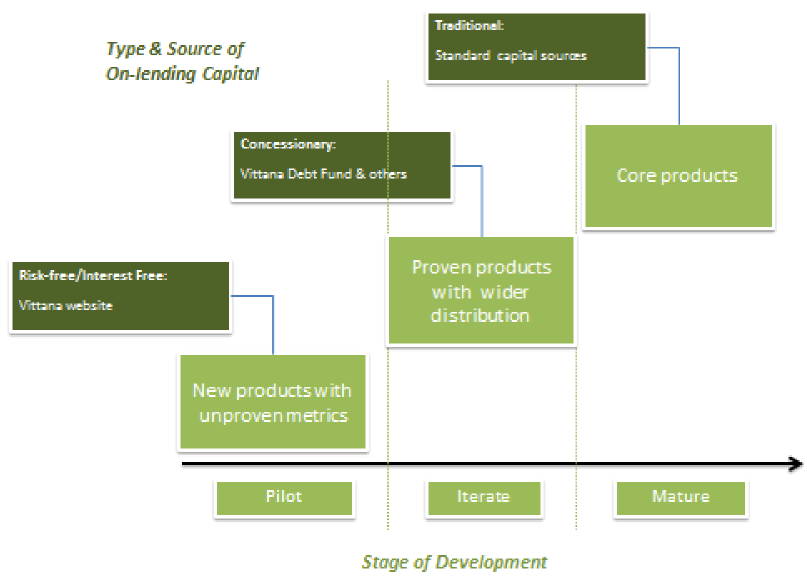
Here are some of the results we've seen from these and the other products in the Vittana portfolio:[9]

- PAR 30: 3.51%
- PAR 30 loans with terms ≥ 24 months: 2.98%
- PAR 30 loans with interest-only grace periods: 0.0%
- PAR 30 loans where student borrower is not employed at time of loan: 0.96%
- PAR 30 loans over $1,000 USD: 4.36%

Further Experimentation

The risk-free capital raised on Vittana's website is an important tool to encourage MFIs to remain innovative. When an MFI has become familiar with the pilot product, Vittana encourages the MFI to make adjustments to the product (additional years of education, less restrictive guarantor requirements, etc.) that will expand access for students. When the next iteration of the product has been successfully tested in the market, another round of adjustments is made. At each step in the product's expansion, MFIs are encouraged to shift Vittana's web-based person-to-person (p2p) capital to the newest, untested iterations of the product, while using their own capital to fund loans made under the already proven models.

Product and capital source development:



[9] Data current through September 30, 2011

Stage	Eligibility	Maximum Ed. Period	Max Loan Term & Size	Funding / Risk Share
Pilot #1	Student/co-signer income	Last 1 – 2 years university or vocational	36 months / $2,500 USD	100% Vittana p2p
Iterate # 1	Student/co-signer income	Last 1 – 3 years university or vocational	36 – 48 months / $2,500	75% Vittana p2p, 25% MFI
Iterate #2	Student/co-signer income	Last 1 – 3 years university or vocational	48 – 60 months / $4,000	40% Vittana Debt Fund (MFI risk), 30% Vittana p2p, 30% MFI
Pilot #2	Secondary grades, employability, expected income	Final year of university or vocational	24 months / $1,500	100% Vittana p2p
Mature	Student/co-signer income, secondary grades, expected income	1 – 4 years of university or vocational	48 – 96 months	80% Vittana Debt Fund (MFI risk), 20% MFI, **0% Vittana p2p**
Iterate #3	Secondary grades, employability, expected income	Final year of university or vocational	24 months / $1,500	75% Vittana p2p, 25% MFI

Scale

Continuous product innovation is accompanied by a parallel commitment to scale-up, the final phase of Vittana's product development strategy and a key to reaching our goal of one million students by 2015. Vittana works with MFIs that have successfully brought their products out of pilot stage to take proactive steps to jump-start growth, such as improved loan officer training, targeted marketing, and surveys of pilot stage borrowers (all of which are supported by a Vittana Fellow). As student demand outstrips the MFI's capacity to fund the portfolio with its own capital, Vittana works to connect the MFI to additional sources of capital.

To demonstrate its commitment to igniting a sustainable market for student loans in the microfinance space, Vittana has agreed to partner with a well-known U.S. based funder to launch the first microfinance debt fund to be used exclusively for loans for higher education. The funds will be priced at a concessionary rate to encourage rapid expansion of student loan portfolios and to offset the additional costs associated with a new product. The first disbursements will be made in 2012.

Beyond 2011

As Vittana begins deploying debt capital and more Vittana partners enter the later stages of the product progression, Vittana will use data from our partners' successes and failures to encourage greater competition and innovation in student lending—demonstration effect. By keeping our steadily expanding track record of successful student lending in the forefront of the microfinance industry, more and more MFIs will begin experimenting with student lending.

MFIs have a natural propensity to follow quickly where a method or market has been proven. Vittana has already seen this tendency work in students' favor. In Mongolia, where Vittana partner XacBank began lending to students in 2007, we learned that three additional MFIs now provide student loans, and the competition has led to more favorable terms for students (e.g. loans to first-year students).

Using the following strategies, Vittana will cultivate this type of quick-follower behavior in all of the markets in which we work:

- Prove capacity for scale
- Grow demand by continuously testing products that cover more years of education
- Gather data to identify sectors with higher employment opportunities
- Identify, replicate, and share local best-practices across multiple markets
- Work with a research partner to prove impact of student loans through controlled studies

Conclusion

Vittana and its partner MFIs have shown that student loan products are viable. We believe that as the products evolve to reach more and more students, a hyper-data-driven approach will allow MFIs to simultaneously reduce risk and amplify impact. Vittana is already noticing some interesting trends: for example, women studying accounting in Nicaragua repay at a better rate than their counterparts in Mongolia. The average projected change in income for Filipina women between the ages of 20 and 24 is 900%, more than three times the Vittana average. While the sample sizes are far too small to draw conclusions, we will continue to explore these trends as our portfolio grows and apply what we learn to future product development.

Access to financial services has improved the lives of hundreds of millions of poor and low-income families around the world. As the next generation of borrowers comes of age, they will look for more than an opportunity to run a small business. Education will give them the skills they need to compete, to create jobs, and to find work that will support their families. But without financial assistance, even low-cost vocational training will remain out of reach for many poor students and their families. In most markets, very few financial service providers, if any, have stepped in to fill this need; the institutions that make up the microfinance industry can and should be the ones to do it.

Appendix

A: Vittana MFI Partners

Vittana Launch	MFI	Country	Executive Director / CEO
May 2009	**Fundación Paraguaya**	Paraguay	Martín Burt
July 2009	**AFODENIC**	Nicaragua	Francisco Montoya Galeano
August 2009	**EDAPROSPO**	Peru	David Venegas
November 2009	**XacBank**	Mongolia	Bat-Ochir Dugersuren
December 2009	**SEDA / Binh Minh**	Vietnam	Tuan Dahn
October 2010	**EducaPro**	Bolivia	Mario Galleguillos
October 2010	**Fundación CREHO**	Honduras	Mayte Portillo
December 2010	**NWTF**	Philippines	Cecilia del Castillo
June 2011	**CCT**	Philippines	Ruth Callanta
June 2011	**FINCA Perú**	Peru	Iris Lanao
June 2011	**Microfund for Women**	Jordan	Muna Sukhtian
July 2011	**ASKI**	Philippines	Rolando Victoria
July 2011	**BancoFie**	Bolivia	Elizabeth Nava
July 2011	**PMPC**	Philippines	Gadwin Handumon
August 2011	**ANS**	Indonesia	Zainal Abidin Siregar
September 2011	**ASAI - Jordan**	Jordan	Ameera Yaqbeh
September 2011	**Kingsbridge Finance**	Ghana	Raphael Tyson
October 2011	**Bank Constanta**	Georgia	Levan Lebanidze
October 2011	**Emprender**	Bolivia	Ramiro Quispe

Acknowledgements: Vittana Fellows

Vittana's work would not be possible without the contributions of the in-country volunteers who make up the Vittana Fellows program. Each plays an essential role in the market research, implementation, and growth phases of a new Vittana loan program.

Vittana would like to specifically acknowledge the work done by **John Foster**, a master's degree student at the University of Kentucky. In the summer of 2011, John worked with the staff of AFODENIC to design and coordinate an impact study of Vittana graduates in Nicaragua. His work included student surveys, in-depth interviews, and multi-media content generation; the results of Mr. Foster's study were invaluable in the preparation of this whitepaper.