

**Further Studies Made Affordable Plus
(FSMA+)
Republic of Malta**

**Capped Portfolio Guarantee and Interest Rate Subsidy
Agreement**

Blueprint
Version 1.0
12th October 2021

Disclaimer

This document is a brief summary of the main provisions of the Guarantee and Interest Rate Subsidy Operational Agreement, hereinafter referred to as the Agreement, relating to transactions in Malta and does not include the detail of many of the provisions described therein. It is not meant to be an exhaustive enumeration and description of the Financial Intermediary's obligations under the FSMA+ Agreement. Therefore this document does not, and is not intended to, replace the need to thoroughly review the terms of the standard FSMA+ Agreement (or for that matter, the final form entered into with the Financial Intermediary). This document is qualified in its entirety by the detailed terms and conditions contained in the relevant FSMA+ Agreement.

This document does not constitute an offer of any nature whatsoever and does not create any binding obligations on the Malta Development Bank to enter into a contract with any third party on the terms set out in this document or otherwise.

Contents

I.	Introduction.....	3
II.	Background.....	3
III.	The Agreement.....	4
	1. <i>Eligible Criteria</i>	5
	2. <i>Portfolio</i>	6
	3. <i>Target Volumes</i>	9
	4. <i>Guarantee rate and extent of guarantee cover</i>	9
	5. <i>Interest rate subsidy and extent of interest rate subsidy cover</i>	9
	6. <i>Payment Demand</i>	10
	7. <i>Recoveries</i>	10
	8. <i>Clawback</i>	10
	9. <i>Guarantee fee</i>	11
	10. <i>Events of Default</i>	11
	11. <i>Reporting</i>	11
	12. <i>Visibility and promotion</i>	11
	13. <i>Maintenance of records, monitoring and audit</i>	12
	14. <i>Credit Policy</i>	13
	15. <i>State Aid</i>	13
	16. <i>Intermediary exposure</i>	13
	17. <i>Title, security and negative pledge (if applicable)</i>	13
	18. <i>Transfer</i>	14
	19. <i>Governing law and jurisdiction</i>	14
	20. <i>Definitions</i>	14

I. Introduction

The purpose of this document is to provide some general information about the standard terms of the Guarantee and Interest Rate Subsidy Operational Agreement (the ‘**Agreement**’) issued by the Malta Development Bank (the ‘**MDB**’) in the context of the implementation of the FSMA+ in the Republic of Malta.

Section II of this document contains the background information on the purpose of the Agreement, while Section II provides information on the key terms and conditions of the Agreement.

II. Background

Following the success of the first Further Studies Made Affordable (FSMA) scheme, through which to-date 219 students were able to undertake specialised studies in various disciplines, the MA has secured EU financing which will be directed to the MDB to implement a new scheme, the FSMA+.

The new scheme will build on the success of its predecessor which the MDB, in collaboration with the Managing Authority of EU funds, had launched in October 2019, and which was co-funded by the ESF 2014-2020.

The purpose of the new FI is to continue to support Eligible Students by enhancing their access to bank loans. This will be done by providing credit risk protection (in the form of a portfolio capped financial guarantee) to the selected Financial Intermediary/ies. The FI will thus mitigate the difficulties that students face in accessing finance because of the lack of sufficient security in combination with the risk they represent.

The Malta Development Bank (MDB) is collaborating with the Ministry Responsible for EU Funds to launch the second Financial Instrument (FI), that supports people in further developing their potential through further and higher education, the Further Studies Made Affordable Plus (FSMA+).

The MDB has again been entrusted with the implementation of the FI by the Managing Authority (The Planning and Priorities Co-ordination Division) within the Ministry Responsible for EU Funds. The initial fund allocated by the Managing Authority to the FSMA+ has been set at an amount of up to EUR 5 million with the possibility of increasing this amount should there be a demand.

The objective of the FI is to continue to support the development of human capital and is aimed to meet the financing needs of students seeking to pursue a full-time or part-time study programme for accredited courses in MQF levels 5, 6, 7 and 8 as well as internationally recognised courses. Similar to the first scheme FSMA, the eligible students will be entitled to receive support through the FI to cover tuition fees, accommodation costs and other expenses to further their studies in Malta and abroad.

The MDB is launching an open call for the selection of one or more eligible financial intermediaries for the implementation of the FSMA+ FI in Malta and Gozo. This FI is designed to improve access to finance for eligible students pursuing further eligible education. The selected financial intermediary/ies shall benefit from capital relief and loss protection via the provision of a capped guarantee on a portfolio of loans originated to eligible students. This shall translate into more favourable terms for the students' loans. The proposed FI will also include a subsidy element which covers the full interest payments due by the final recipients during the moratorium. The moratorium on the payment of interest is equal to the duration of the academic course plus one year (up to a maximum of 5 years). The duration of the guarantee is for the moratorium period plus a minimum of 2 times the course duration but limited to a maximum of 15 years. The portfolio shall be managed by the financial intermediary selected through the Call.

The FI shall mitigate the difficulties that students face in accessing finance because of the lack of sufficient collateral in combination with the risk they represent.

III. The Agreement

The terms of the FSMA FI are set out in the Agreement and divided into five parts:

- **Part I Portfolio Guarantee**, which contains the general provision of the FSMA Guarantee Facility and which will be common to all selected financial intermediary(ies).
- **Part II Interest Rate Subsidy**, which contains the general provision of the FSMA Interest Rate Subsidy which will be common to all selected financial intermediary(ies).
- **Part III General conditions regulating the Portfolio Guarantee and the Interest Rate Subsidy**, which contains the general provisions regulating the FI.
- **Part IV Loan Eligibility and Inclusion and Exclusion Process**, which contains the Eligibility Criteria, Portfolio Inclusion and Exclusion Processes.
- **Part V Miscellaneous**, which contains the Representations and other conditions.

The following are the key terms applicable to the Agreement:

1. Eligible Criteria

- a. For the purposes of the FSMA+ FI, to be eligible, students must fulfil the following criteria:
- Is a Maltese citizen; **OR**
 - 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**
 - Is a third country national that has been granted long-term residence status under SL217.05
 - (note: in case of married couples where the eligible loan needs to be issued in the joint names under the Family Law, one of the applying borrowers needs to comply with at least one of the categories above).
 - The student is not in an exclusion situation (see section 2.c below).
- b. For the purposes of the FSMA+ FI, each loan shall comply with the following criteria:
- The loan shall be newly originated;
 - The amount committed by the financial Intermediary under the loan shall not be higher than the €100,000.
 - Purpose: The loan shall specifically finance the costs for tuition fees, living expenses (in line with a pre-established budget), accommodation fees, transport expenses, textbooks and other course related expenses;
 - The loan is aimed to meet the needs of eligible students interested in pursuing a study programme for MQF levels 5 to 8 and Internationally Recognised Certifications.
 - The loans shall specifically finance both full time and part time students;
 - The loans shall not refinance or restructure an existing loan.
 - The loans shall be a term loan facility and have a fixed repayment schedule.

- The loans' maturity shall not exceed 15 years, inclusive of moratorium period.
- The loans shall not be affected by an irregularity or fraud;
- The loans shall be denominated in Euro;
- Any moratorium period to be granted for a loan shall not exceed course period plus 12 months. Overall, the maximum moratorium period shall not exceed five years; and
- The interest rate subsidy will only cover those loans for which the student is an active student and up to one month after the discontinuation of the course by the student.

Certain Eligibility criteria must be complied with at all times, whilst others must only be complied with at the moment of entering into the relevant loan (Eligible Student Transaction), as specified in the Agreement.

Under the FSMA+, the financial intermediary is obliged to pass on the financial benefit derived from the FI to the eligible student. In particular, the financial intermediary shall reduce the interest rate charged on each loan, reflecting the risk reduction from the guarantee.

2. Portfolio

The portfolio of loans shall be covered by the Agreement to be signed between the financial intermediary and the MDB in accordance with the following principles:

a. Inclusion process

The Availability Period that is the final date for inclusion of loans under the scheme, that is the end date for the availability period is 31 December 2026, subject to certain terms and conditions.

In order to be included in the portfolio, a loan must:

- (i) comply with eligibility criteria;
- (ii) must be approved and included in the final report to be sent to the MDB covering period ending 31 December 2026, subject to certain terms and conditions
- (iii) be fully disbursed to the final beneficiary by the financial intermediary during the period until 31 December 2027, subject to certain terms and conditions.

The financial intermediary must include the loan in the portfolio by submitting to MDB inclusion notices in respect of the loan entered into the preceding calendar

month. The loans so included in the portfolio are covered by the Agreement as from the date on which they have been entered into.

Loans can be included in the portfolio in accordance with the above procedures until a specific volume (the ‘**Agreed Portfolio Volume**’) is reached.

The Actual Portfolio Volume, that is, the aggregate amount of the principal committed under the newly originated and disbursed loans included in the portfolio from time to time may in no circumstances exceed the Agreed Portfolio Volume. The MDB has the option (in its absolute discretion) to increase the Maximum Portfolio Volume.

If the financial intermediary benefiting from MDB’s guarantee has not disbursed the planned Agreed Portfolio Volume to the final recipient by the specified date in the Agreement, the guarantee and interest rate subsidy amount shall be reduced proportionally.

If in the first 15 months from signing of the Agreement the financial intermediary has not included 25% of the Agreed Portfolio Volume under the Eligible Student Transactions, and/or if by the 36th month from signing of the Agreement the financial intermediary has not included 50% of the Agreed Portfolio Volume under the Eligible Student Transactions, the MDB will carry the right to offer the Call and initiate contractual negotiations with any of the other Applicants in the reserve list, taking into consideration the results of the evaluation procedure and ranking.

b. Portfolio Trigger Events

Notwithstanding the above, the Availability Period will terminate before the 31st December 2026 if a trigger event has occurred on a relevant reporting date and the MDB has delivered a trigger event notice to the financial intermediary/ies. A trigger event will occur if the financial intermediary/ies has not reached a minimum of 20% of the volume of loans (based on commitments) on a specific date (the ‘Portfolio Trigger Event Determination Date’) diagrammatically described as follows:



If such a trigger event occurs, the financial intermediary/ies shall notify the MDB thereof. Following such notification, the MDB shall consider the

situation and may send a notice to the financial intermediary to early terminate the Availability Period on the date set out in such a notice.

c. Exclusion process

Under certain circumstances loans shall or might be excluded from the portfolio, and hence will no longer be covered by the Agreement:

- (i) If a loan included in the portfolio does not comply or no longer complies with the eligibility criteria, i.e. becomes a ‘Non-Eligible Student Transaction’.

If however a loan included in the portfolio becomes a Non-Eligible Student Transaction as a result of an event or circumstance which is not within the control of the financial intermediary (and before the financial intermediary has delivered to MDB a Payment Demand (as further described below) in respect of such a loan, then the financial intermediary has the choice to either:

- Accelerate the relevant loan which will in that case continue to be covered by the guarantee, but the interest rate subsidy will cease to be paid; or
- Have the transaction excluded from the portfolio.

Similarly, if this occurs after the financial intermediary has delivered a Payment Demand to MDB, the relevant loan will remain covered by the guarantee but for the purpose of such Payment Demand only. The interest rate subsidy will cease to be paid on the date the Payment Demand is delivered to MDB.

- (ii) If any of the eligibility criteria indicated in Section 1 above is not or no longer complied with the loan shall be excluded.

Under both (i) and (ii) the interest rate subsidy paid to the excluded borrower under the scheme need to be refunded back to the MDB.

Exclusion of a loan from the portfolio will result in a reduction of the Actual Portfolio Volume.

d. Adjustment of the Portfolio Volume

In addition to the reduction of the Actual Portfolio Volume further to an exclusion from the portfolio, if the financial intermediary has not fully disbursed the planned Actual Portfolio Volume to the Eligible Student (Final Recipient) by 31 December 2027, the Guaranteed amount and the Interest Rate Subsidy shall be reduced proportionately.

e. Replacement

If the Actual Portfolio Volume is reduced with respect to (c) or (d) above, the financial intermediary will be permitted to include new loans in the portfolio.

Replacement of the loan must, inter alia, (i) comply with the eligibility criteria and other relevant provisions of the Agreement; and (ii) be entered and disbursed during the Availability Period i.e. before 31st December 2026.

3. Target Volumes

The Agreement shall contain certain portfolio volumes that shall be reached by the financial intermediary. The volumes will be measured against the Actual Portfolio Volume (as adjusted in accordance with the principles set out above). The minimum leverage volume is set at five times the guaranteed amount.

4. Guarantee rate and extent of guarantee cover

The Guarantee shall partly cover the credit risk associated to underlying, new loans to eligible students included in the guarantee portfolio. The loans shall be covered by the MDB at a guarantee rate of 80% of each eligible loan subject to a maximum liability in respect of loan losses expressed as a guarantee cap amount of a maximum of EUR 3 million calculated on a portfolio basis as 25% of the portfolio. The Managing Authority will reserve the right increase the funding allocated to this instrument.

The duration of the guarantee is for the term of the eligible loan up to a maximum of ten (15) years.

The MDB and the financial intermediary agree and acknowledge that at any one time, the aggregate amount which the MDB may be liable to pay pursuant to the Guarantee shall be an amount equivalent to the product of (a) the Actual Portfolio Volume; (b) the Guarantee Rate; and (c) the Guarantee Cap Rate, provided that:

- (i) The maximum aggregate amount which MDB may be liable to pay under the Guarantee is limited up to the Maximum Guarantee Amount;
- (ii) The maximum aggregate amount which MDB may be liable to pay under the Guarantee in respect of any one Eligible Student Transaction is limited up to the Individual Guarantee Amount.

5. Interest rate subsidy and extent of interest rate subsidy cover

The interest rate subsidy will be awarded to support the eligible loans issued by the financial intermediary. The interest element during the moratorium period of each

loan will be fully covered by the interest rate subsidy provided by the FI and will be paid by MDB. The interest is to be charged by the financial intermediary to the individual eligible loan account on a monthly basis. The financial intermediary will send a claim to MDB on a quarterly basis covering the interest rate subsidy due on the eligible loans for the previous quarter.

6. Payment Demand

(a) Against the guarantee

The financial intermediary may claim payment for Defaulted Amounts under the Agreement by sending a payment demand to the MDB in the form set out in the Agreement.

A Payment demand can be sent any time after the occurrence of the Defaulted amount (until the termination of the Agreement), but the Defaulted Amounts must be reported to MDB (as further specified below) by no later than the Report Date following the calendar quarter during which they occurred.

Only one payment demand may be made per quarter, and the payment demand must be made within 10 calendar days following the end of the quarter.

(b) Against the interest rate subsidy

The financial intermediary may claim payment for the interest rate subsidy under the Agreement by sending a payment demand to the MDB in the form set out in the Agreement.

Only one payment demand may be made per quarter, and the payment demand must be made within 10 calendar days following the end of the quarter.

7. Recoveries

The Recovery amount is net of recovery and foreclosure costs, received by the financial intermediary in relation to a Defaulted Amount in respect of which the MDB has paid amount under the Agreement. The financial intermediary shall be required to pay to the MDB on a *pari passu* basis, subject to the percentage amount claimed on the guarantee against the individual eligible loan.

8. Clawback

In addition to Recoveries, the financial intermediary shall be required to pay to the MDB any amount that has been paid by MDB to a financial intermediary in excess of the amount guaranteed, and/or interest rate subsidy, or any amount paid by the MDB in relation to a loan that has become an excluded Student Transaction.

9. Guarantee fee

No guarantee fee is applicable under this FI.

10. Events of Default

The Agreement contains certain standard events of default, including non-payment, breach of obligations, insolvency, unlawfulness and misrepresentation.

Occurrence of any of the events of default regarding one of the parties to the Agreement entitles the other party, after due notification to suspend its obligations thereunder. If such event of default is not remedied within a certain grace period (if any) or explicitly waived by the other party, the other party will be allowed to terminate the Agreement immediately and accelerate payment.

11. Reporting

The financial intermediary will be required to report on a monthly and quarterly basis. Monthly reporting shall include information at portfolio level while the quarterly reporting shall contain information about each eligible loan included in the portfolio. The reports must be provided within 10 calendar days from month or quarter end.

In addition, the financial intermediary shall be required to (i) supply information reasonably requested by the MDB to enable the MDB to comply with its own internal analysis and reporting obligations, and to the national authorities of Malta and otherwise; and (ii) upon request, monthly volume information in the form of a schedule to the Agreement.

12. Visibility and promotion

The financial intermediary shall ensure that any press release, publication, advertisement and other communication or promotional material which the financial intermediary may choose to make with regard to the eligible loans shall provide that such loans benefit from the support by the MDB, European Social Funds (ESF) and European Social Funds Plus (ESF+) and the Ministry Responsible for EU Funds.

The financial intermediary shall ensure that any eligible loan documentation and other communication with the final beneficiary shall contain the following:

'The Eligible Student Transaction benefits from the support from the European Union through funding provided by the European Social Fund (ESF) 2014-2020 and the European Social Fund Plus (ESF+) 2021-2027.

13. Maintenance of records, monitoring and audit

- (a) The financial intermediary undertakes, and shall procure that each Students undertakes, to prepare, update and at all times maintain available for MDB, the following documentation:
 - (i) information necessary to verify that the use of the guarantee is in compliance with the relevant requirements set by the Agreement that shall be signed by the MDB and the financial intermediary, including, without limitation, the compliance of any and all eligible loans included in the portfolio with the eligibility criteria;
 - (ii) information necessary to verify the proper implementation of the terms of the Agreement that shall be signed between the MDB and the financial intermediary into the contracts evidencing Eligible Students' Transactions;
 - (iii) information regarding the payment and recovery processes of the financial intermediary;
 - (iv) any other information reasonably required by the MDB.
- (b) If any deficiency in the maintenance of records is identified by the MDB and the financial intermediary is informed of such deficiency, the financial intermediary hereby undertakes to (and shall use its reasonable efforts to ensure that each students shall) promptly, and in any event no later than three (3) months after being informed of such deficiency, comply with the instructions given by the MDB and provide any additional information reasonably requested by the MDB.
- (c) The financial intermediary shall promptly obtain, comply with and do all that is necessary to maintain in full force and effect and, on request supply certified copies to the MDB of, any authorisation required under applicable law or regulations to enable the financial intermediary to perform its obligations under the Agreement.
- (d) The financial intermediary shall maintain records relating to the Agreement and certain other matters for 10 years following the final claim on the guarantee and/or on the interest rate subsidy. In addition, the financial intermediary is required to ensure that each eligible student undertakes to

maintain relevant records for the time period specified herein. The financial intermediary is required to insert in its facility agreement documenting the loans a standard paragraph stating that the MDB or its representative are entitled to carry out audits, controls and inspection of the documentation related to the loan.

14. Credit Policy

The financial intermediary must comply with its credit policy, including when originating and monitoring covered eligible loans and when consenting to amendments and waivers.

The financial intermediary must not make any material amendments to its credit policy in relation to the FI, without prior written consent of the MDB.

15. State Aid

- (i) The MDB and the financial intermediary acknowledge that the guarantee provided under the Agreement, is to be taken in the context of their compliance with State Aid legislation and rules and undertake to comply with any applicable State Aid legislation and rules.
- (ii) The financial intermediary undertakes to fully pass on the state aid benefit derived from this FI to the eligible students.
- (iii) In the case of a student applying for a loan no state aid applies.

16. Intermediary exposure

For the duration of the Agreement, the financial intermediary must (i) maintain an economic exposure of at least 20% of the outstanding principal amount of each loan included in the portfolio; and (ii) not enter into any credit support, guarantee or other transfer of risk arrangements with respect to such portion of each eligible loan included in the portfolio (provided that any collateral, security or guarantee payable to the Financial Institution that qualify as Recoveries, as described above, shall not be taken into account for this purpose).

17. Title, security and negative pledge (if applicable)

On the date on which the financial intermediary sends a payment demand, the financial intermediary must have good title of the relevant eligible loan and such transaction must be free and clear of any security. Moreover, the financial intermediary undertakes not to create security over the relevant eligible loan after the date of a payment demand.

18. Transfer

Neither MDB nor the financial intermediary shall assign or transfer any of its rights or obligations under the Agreement without the prior written consent of the other Party.

19. Governing law and jurisdiction

The financial intermediary hereby irrevocably agree that the Courts of Malta are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Agreement and the documents entered into pursuant to it and that accordingly any proceedings arising out of or in connection with the Agreement and such documents shall be brought in such courts.

20. Definitions

This document makes reference to definitions which shall be referred to the Agreement. Such definitions include:

Availability Period	<p>Typically, a maximum of 60 months depending on the date of signature of the Operational Agreement but not later than 31st December 2026. During this period Eligible Loans may be included by the financial intermediary in the Portfolio for cover. Such inclusion of Eligible Loans shall occur automatically upon receipt by the MDB of an inclusion notice submitted by the financial intermediary on a monthly and quarterly basis. For the avoidance of doubt the Eligible Loans so included shall be deemed to be covered by the Guarantee from the date of the signature of such Eligible Loans.</p> <p>The underlying Eligible Loans to be covered by the Guarantee and interest rate subsidy shall be:</p> <p>(i) Eligible Loans entered within the Availability Period; and (ii) loan funds fully disbursed to the final beneficiary by the Availability Period that is 31 December 2027.</p> <p>In addition, due to the fact that part of the fund covering the eligible cost is expected to be funded from the current ESF programme, 15% of the Agreed Portfolio has to become Eligible loans and that such loans are fully disbursed to the final beneficiary by latest 31 December 2023.</p>
---------------------	--

Agreed Portfolio Volume	The aggregate amount of newly originated and disbursed Eligible Loans to be covered by the Financial Instrument, as agreed in the Operational Agreement.
Eligible Student Transaction	Means the loan request which has passed all eligibility criteria of the scheme and is considered as an included transaction under the scheme.
Portfolio Trigger Event	<p>If the financial intermediary has not reached a minimum of</p> <ul style="list-style-type: none"> → 25% of the <u>volume of Eligible Student Transactions</u> (based on commitments) by the 15th month from signing of the Operational Agreement, → 50% of the <u>volume of Eligible Student Transactions</u> (based on commitments) by the 36th month from signing of the Operational Agreement <p>MDB will consider the situation and may send a notice to the financial intermediary to early terminate the Availability Period on the date set out in such a notice or reduce the allocated portfolio volume.</p>