



## **MDB StudentAssist Republic of Malta**

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

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#### **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 MDB StudentAssist Agreement. Therefore this document does not, and is not intended to, replace the need to thoroughly review the terms of the standard MDB StudentAssist 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 MDB StudentAssist 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.

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## 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 MDB StudentAssist Financial Instrument (the ‘**FI**’) 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) and the Further Studies Made Affordable plus (FSMA+) scheme, through which to-date 750 students were able to undertake specialised studies in various disciplines, the Ministry for European Funds (the ‘**MFI**’) has secured EU financing which will be directed to the MDB to implement a new scheme, the MDB StudentAssist.

The new scheme will build upon the success of its predecessors: the FSMA, launched in October 2019 by the MDB in collaboration with the Managing Authority (MA) and co-funded by the European Social Fund (ESF) 2014–2020; and the FSMA+, introduced in February 2022 and co-funded by the European Social Fund Plus (ESF+).

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 third Financial Instrument (FI), that supports people in further developing their potential through further and higher education, the MDB StudentAssist.

The MDB has again been entrusted with the implementation of the FI by the MA within the Ministry Responsible for EU Funds. The initial funds allocated by the MA to the MDB StudentAssist has been set at an amount of up to EUR 1.5 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 and second schemes FSMA and 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 MDB StudentAssist 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/ies 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.

If more than one financial intermediary is selected to manage the call, loan allocations shall be made on a first-come, first-served basis. Once a financial intermediary reaches 70% of its Maximum Portfolio Volume, the remaining 30% shall be distributed among the participating intermediaries on a pro-rata basis, in proportion to their respective loan portfolios at that time, unless the MFI decides to further increase the funds made available for the FI.

### III. The Agreement

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

- **Part I Portfolio Guarantee**, which contains the general provision of the FI 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 FI 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 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 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. For ease of clarification, the maximum amount of €100,000 is the aggregate amount a student can take under the FSMA, FSMA+ and the new MDB StudentAssist scheme, even if the loan taken under any of the schemes is repaid. The same Student cannot reapply for another loan under any of the schemes, unless the student applies for a loan for a different study course or for multiple levels of qualifications, and subject to the maximum aggregate total amount of €100,000 for all loans.
  - If an individual applies for more than one Eligible Loan the maximum term of repayment of the loans shall be 15 years from the first disbursement for the first Eligible loan made available to the Eligible Student under the FSMA+.
  - 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 the maximum of 15 years, inclusive of moratorium period. Following the moratorium period the loan repayment maturity shall not exceed 10 years, as follows:
  - ✚ facilities under €10,000 shall not exceed two (2) times the course period;
  - ✚ facilities greater than €10,000 but lower than €20,000 shall not exceed four (4) times the course period; and
  - ✚ for facilities greater than €20,000 shall not exceed five (5) times the course period.

Subject to the maximum term for repayment of ten (10) years, excluding moratorium specified above. Any changes to these terms require the mutual agreement of the Parties

- 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 a maximum of one month after the discontinuation of the course by the student. If the student discontinues the course for any reason other than medical, the student would be obliged to pay back the interest subsidy on the loan and the bank must communicate to the student that the loan is due for full repayment.

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 this FI, 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 2028, 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 2028, subject to certain terms and conditions
- (iii) be fully disbursed to the final beneficiary by the financial intermediary during the period until 31 December 2029, 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 ‘**Actual Portfolio Volume**’) is reached.

The Actual Portfolio Volume, that is, the aggregate amount of the principal committed under the newly originated and disbursed loans by the intermediary bank, included in the portfolio from time to time may in no circumstances exceed the Actual Portfolio Volume.

The MDB has the option (in its absolute discretion) to increase the Maximum Portfolio Volume.

If the financial intermediary/ies benefiting from MDB's guarantee has not disbursed the Sanctioned Amounts 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 12 months from signing of the Agreement the financial intermediary has not included 25% (*Portfolio Trigger Event*) of the Maximum 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 31<sup>st</sup> December 2028 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 25% of the volume of loans (based on commitments) on a specific date (the 'Portfolio Trigger Event Determination Date') that is 12 months from signing of Agreement.

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.

In addition to the above the MDB will carry the right to:

- a) offer the Call to be managed by the other intermediary bank, in case when more than one bank is chosen; and/or
- b) initiate contractual negotiations with any of the other Applicants in the reserve list, taking into consideration the results of the evaluation procedure and ranking.

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 2029, 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 2028.

### **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 maximum 80% of each eligible loan subject to a maximum liability in respect of loan losses expressed as a guarantee cap of a maximum of 20% of the guaranteed portfolio amount. The MA will reserve the right to 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 to a maximum of 80% of the Defaulted Amount as long as that amount does not exceed the Maximum Guaranteed 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 following a claim in the form of a report by the financial intermediary. The interest is to be charged by the financial intermediary to the individual eligible loan account quarterly or half yearly

basis. The financial intermediary will send a claim to MDB on a quarterly or half yearly basis covering the interest rate subsidy due on the eligible loans for the previous quarter/half year.

## **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 or half yearly, 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 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 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:

Actual Portfolio Volume	The aggregate amount of newly originated and disbursed Eligible Loans to be covered by the Financial Instrument.
Availability Period	<p>Typically, a maximum of 39 months depending on the date of signature of the Operational Agreement but not later than 31<sup>st</sup> December 2028. 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 31 December 2029.</p>

Defaulted Amount	Means loans which are more than 90 days in arrears. The Defaulted Amount covers the outstanding balance on the loan plus a maximum of 90 days interest.
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.
Maximum Guaranteed Amount	Outstanding balance on the loans plus undisbursed amounts multiplied by the guarantee rate and the guarantee cap.
Maximum Portfolio Volume	The aggregate portfolio volume that can be reached under the FI, including all Eligible Student Transactions, included under the FI by the intermediary/ies.
Portfolio Trigger Event	<p>If the financial intermediary has not reached a minimum of</p> <p>→ 15% of the <u>volume of Eligible Student Transactions</u> (based on commitments) by the 12<sup>th</sup> month from signing of the Operational Agreement, 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>
Sanction Amount	The maximum amount made available for the student under the loan agreement.