Case Study

Prodigy Student Financing

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Introduction

Prodigy Finance is a United Kingdom (UK) based FinTech that provides loans to international postgraduate students based upon their predicted future income rather than their credit history. Initially designed to fund business degrees, Prodigy Finance loans have expanded to cover programmes of science, technology, engineering, law, public affairs, mathematics, and healthcare sciences. It enables students of disadvantaged socioeconomic background to access loans and has, to date, financed more than 22,500 students from across the world, 80% of whom come from low- and middle-income countries (Prodigy Finance, 2021b).

Prodigy Finance relies upon a proprietary credit model that assesses applicants based on projected earnings and university acceptance in addition to other data points. Therefore, it does not follow a traditional practice of screening applicants based on their credit history but rather focuses on students future earning potential (Fuscaldo, 2018).

Why is student financing necessary?

Overcoming the financial challenge of studying abroad is a common struggle for international students. Increasing university fees – especially for business degrees – heightens the challenge of accessing postgraduate studies. This financial burden is particularly acute in the United States (US) where, despite offering the most popular businesses courses, 79% of the international students surveyed by the Graduate Management Admission Council (GMAC) did not apply for them due to their high tuition fees (GMAC, 2019).

This trend is only worsening. In 2020, only 38% of prospective MBA students felt that they would be able to pay their fees in full, in comparison to 42% in 2019 (Moules, 2020). Additionally, 19% of prospective students stated that they did not know how they would cover the university costs. Citing GMAC surveys, Moules also argues that financing business education is increasing the burden on parents to support tuition payments. In 2014, financial support to students from their parents peaked at 22%. This number has since dropped to 18% in 2017. While the total cost of business education varies across institutions, there is an upward trend. Between 2016 and 2020, the number of US Business Schools that had an estimated cost of USD 200,000 for a full-time Master in Business Administration, tripled (Moules, 2020).

A common finance mechanism that allows students to access fee-charging higher education is student loans. However, traditional student loans have several limitations for international students from low- and middle-income backgrounds. Traditional lenders often require a guarantor and/ or collateral to be able to provide the loan. Without the financial ability to provide this – whether individually or from family support – these channels of finance are inaccessible to many. Alternatives to loans are also difficult to obtain (Prodigy Finance, 2021b). For example, scholarships tend to mostly be earmarked for undergraduate students (Shukla, 2017). Prodigy Finance aims to address these challenges and to ensure equitable quality education for all by providing funding without a guarantor nor collateral (Prodigy Finance, n.d.-b; Prodigy Finance, 2021a).

Prodigy Finance: Investors

Prodigy Finance is a FinTech (whereby technology is used to support or enable financial services) based in London that is authorised by the UK's Financial Services Authority. It acquires funding through private and institutional investments in its bond programme. Investors consist of banks, alumni, universities, social impact investors, family offices and other qualified private investors. In order to invest in Prodigy Finance bonds, the investor must be either a professional investor or a high-net-worth or self-certified sophisticated investor[1] (Prodigy Finance, n.d.-b; Prodigy Finance, 2018).

Investors can choose to invest in multiple different currencies, including GBP, EUR, and USD, as well as from a variety of bond types. For example, there are school specific bonds (e.g., a Yale Bond) and regional specific bonds (e.g., an India bond). Each bond has a separate pool of underlying students and is listed on the Irish Stock Exchange (Prodigy Finance, 2018). The bonds are marketed as having a social impact, highlighted by the fact that 89% of current borrowers depend on Prodigy Finance to fund their degree and 80% come from emerging markets. The maturity of bonds can be 7, 10, 15 and 20 years with investors receiving quarterly coupon payments of principal and interest, as students repay their loans (Goel, 2020).

Of a total USD 1 billion dollars already provided to postgraduate students, USD 900 million consisted of institutional debt facilities by the Deutsche Bank, Goldman Sachs, M&G Investments and Sumitomo Mitsui Banking Corporation. The remaining USD 100 million came from other investors, such as schools, family offices and high-net-worth individuals participating in the Prodigy Finance international bond programme, which is distributed by Credit Suisse (Fuscaldo, 2018). The finance generated from these investors provides the capital needed to lend to postgraduate students.

Prodigy Finance: Borrowers

Prodigy Finance's model ensures equitable access to financing for postgraduate students from all socioeconomic backgrounds (Prodigy Finance, 2021a). It differs from that of traditional lenders as it is specifically tailored to improve access for international students with limited or no funding options. Prodigy Finance's unique origination model of lending is based on more than 10 years of existing lender and borrower data and determines the lending amount based on students' university acceptance and predicted earnings potential (amongst other variables). Additionally, unlike traditional lenders, international postgraduate students are not required to provide collateral, a guarantor nor have existing credit history in their country of study to qualify for a Prodigy Finance loan (Fuscaldo, 2018; Moules, 2020; Prodigy Finance, 2021b). A Probability of Default model ensures that the amount lent to borrowers will not overburden them with debt. Following the completion of their studies, students are also given a six-month grace period after graduation before beginning their repayments (Prodigy Finance, n.d.-a).

Applying for a Prodigy Finance loan takes place online and does not necessitate a co-signer, providing a particular advantage for international students who are traditionally required to provide the contact of a citizen in their country of study. The online registration form includes a questionnaire and requires students to upload documents to support their claims. The application entails information about their income, university of study, and a budget plan to fund the entire postgraduate programme, especially as loans are granted on a per semester basis. Finally, all existing liabilities such as credit card debt, personal loans, mortgages, or auto loans need to be listed, next to the information about the students' assets and properties. Applicants are screened for exceptional academic and professional performance, university acceptance, their need for the loan and their ability to pay it back. Chosen applicants are made an online offer, after which students can virtually sign and submit the contract. Finally, once the contract is signed, the funds are directly sent to the university.

Conclusion

[1] A sophisticated investor is a high-net-worth investor with experience and market knowledge, which makes them eligible for certain benefits and opportunities (Chen, 2020).

Prodigy Finance is investing in tomorrow's leaders whilst enabling its investors to earn a financial return. The innovative and borderless model, built upon a decade of data, allows lending to occur based on a student's future earnings rather than their present financial circumstances and credit history (Prodigy Finance, n.d.-c). Loans based on merit rather than geography or socioeconomic status enables talented people with limited or no other viable financing options to pursue and fund postgraduate education.

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