UVA-ENT-0220
May 25, 2018

MPOWERing Global Students

Emmanuel (Manu) Smadja picked up the "Special Innovators and Disruptors Issue" of *Washington Life* magazine, whose cover was a photo of himself with four other up-and-coming tech entrepreneurs, and flipped to the cover story. He was elated, yet anxious, to see that his start-up was receiving high-profile attention:

> As an international student from France, Smadja found it hard to get the financial assistance he needed during his college years, relying on odd jobs and financial sacrifices from his family in order to graduate from the University of Virginia. He and co-founder Mike Davis began MPOWER to help the one million international students and more than two million domestic students across the United States whom they say don't have access to traditional student loan options.[1]

Putting down the magazine, Smadja's thoughts turned to the personal experience that had been the genesis of his company. As a French citizen, he had had difficulty financing his education in the United States. He recalled:

> With a middle-class background, my family and I worked, saved, and searched out scholarships—but always fell short. Federal aid was restricted to US citizens, while private banks wouldn't lend to international students. I wasn't alone. Friends had confided they were on the verge of dropping out due to unmanageable school costs. A few eventually did.
>
> Then several years after I graduated, a younger fraternity brother emailed alumni saying he was about to drop out of his undergrad program because he couldn't make his $500 rent. Along with others, I helped out, but was appalled a bright engineering student would be forced to concede a high-potential future for the cost of one month's rent. I was convinced something had to change.[2]

Smadja and Davis, his cofounder, had filled a vacuum in the lending market by reaching out to top students without mainstream lending options. Their website's home page cast a wide net—"Loans for International and Domestic Students at U.S. Colleges"—and identified the mission of MPOWER Financing (MPOWER) as enabling "high-promise global citizens to further their academic and financial aspirations because we believe that socio-economic mobility should be borderless" (see **Exhibit 1**).

Without any experience in the world of higher education, the two had set a high bar for other lenders by bringing to market a fast, paperless loan application process that opened up credit approval to more than just credit history. Their new lending approach was rooted in three elements: partnerships with universities, pooled

[1] Virginia Coyne, "Tech 25: The Entrepreneurs Who Are Making Waves, Affecting Communities and Simplifying Our Lives," *Washington Life*, November 2015, 40–51.

[2] This is a field-based case. All information and quotations, unless otherwise noted, derive from author interviews with company representatives.

private investments, and advanced risk analytics to estimate borrowers' postgraduation earnings and payback ability. Loan features were distinct from those offered by traditional lenders: application was open to all nationalities, and there were no requirements for guarantees, cosigners, or collateral.

Drawn to introspection, Smadja thought about how he and Davis had taken MPOWER far and fast, thanks to a tsunami of innovations that came out of the exploding financial technology (fintech) field. Nonetheless, he was increasingly troubled.

The US political sands had shifted, and immigration had become a contentious legislative issue. As a lender to foreign nationals, MPOWER suddenly found itself at the intersection of market innovation and government policy, and Smadja questioned how entrepreneurs like himself would negotiate that vulnerable ground. He wondered if his company would have to adapt to an altered ecosystem. And if it couldn't, what were his options?

Education Mecca

The United States was the go-to destination for international students. Its world-class colleges and universities were renowned, and there was a long history of applicants seeking out the chance to experience American culture.[3]

In return, foreign students contributed more than $39 billion annually to the US economy.[4] No less important, they brought to campuses international perspectives that broadened knowledge and global understanding. For more than 150 years, US classrooms welcomed students from around the globe—more than one million in 2016.[5]

The fact that, on average, almost two-thirds of these foreign students were family funded[6] had produced a demographic of mostly affluent, if not high-wealth, international students, particularly at the nation's elite public and private schools. Schools welcomed them and the full-tuition revenue they brought to campuses and surrounding communities. While cost may not have been a problem for the world's high-net-worth individuals and families, funding a US education was problematic, if not impossible, for those in lower economic strata.

"Just Two Guys"

Like many of his clients, Smadja had worked steadily to make ends meet as a young engineering student. His career plans had never included self-employment, and he regretted taking only one entrepreneurship class while getting his MBA.

Looking back, that entrepreneurship class was a lucky decision that had proved fruitful in multiple ways. It was in that class that he had met Davis when the two were paired in a highly competitive entrepreneurship simulation project.

"For us, the entire simulation was an entrepreneurial 'trial by fire,'" Smadja admitted.

[3] Laura McKenna, "The Globalization of America's Colleges," *The Atlantic*, November 18, 2015, https://www.theatlantic.com/education/archive/2015/11/globalization-american-higher-ed/416502/ (accessed Oct. 13, 2017).

[4] *Open Doors* Report 2017. Presentation, Institute of International Education and U.S. Department of State Bureau of Educational and Cultural Affairs, National Press Club, November 13, 2017, https://www.iie.org/en/Research-and-Insights/Open-Doors/Open-Doors-2017-Media-Information (accessed Nov. 20, 2017).

[5] https://www.iie.org/en/Research-and-Insights/Open-Doors/Open-Doors-2017-Media-Information.

[6] https://www.iie.org/en/Research-and-Insights/Open-Doors/Open-Doors-2017-Media-Information.

> Our competitors were first-rate and fierce. The whole experience was brutal and Mike and I clashed, time and again, at pivotal decision points. Even so, we had an underlying trust in each other's expertise and an appreciation for the other's perspective. As we worked feverishly to take our team from its last-place ranking, we saw that our joint decisions were usually spot-on and delivered good, even great results. By the time we took the course trophy, we knew we had accomplished something remarkable together. As we said our goodbyes, Mike laughingly mentioned, "If you ever want to start a company, give me a call."

Looking back, Smadja attributed their classroom success to "a mix of mutual respect and solid business intuition that somehow all worked in sync. We brought together complementary strengths and skills. I came from the corporate world; he was an experienced, serial entrepreneur."

The two men stayed close over the next few years, often discussing possible—if improbable—business ideas. However, it was the disturbing email from his financially strapped fraternity brother that captured Smadja's attention: "That email was a digital lightning bolt. I related to this brother's plight and thought, 'I know what it's like to be an underfunded student in a foreign country. There has to be a way to solve this problem on a systemic level.'"

Working as a consultant for major financial services companies around the globe, Smadja knew finance. The fintech software and services sector was booming. Massive investments in businesses were redefining the financial services ecosystem. In fact, in an article about cutting-edge financial services in sub-Saharan Africa that Smadja had published for his employer, McKinsey & Co., Inc. (McKinsey), he had written, "Launching mobile payments in new markets is seldom easy.…For players that are able and willing to move in the near future, there are…opportunities to win important first-mover advantages."[7]

Those words gave rise to a slowly germinating idea that merged social impact and business opportunity—student loans for top students, like his fraternity brother, who were shut out of traditional lending options. "There's a rich and growing market. After all," Smadja reasoned, "foreign student enrollment in US schools had been skyrocketing over the past decade." The *New York Times* called the previous decade one of "explosive growth in foreign student enrollment."[8]

To pursue his plan, Smadja knew he needed a partner—someone who understood entrepreneurship, who knew how to raise capital, and who was comfortable with technology and software. Smadja wanted "someone I could work well with as I did the 'fin' and he did the 'tech.'"

His first business decision was to call Davis. As an excited Smadja began to talk about developing a brand-new way to provide student loans, Davis commented, "By any chance, is this that 'let's start-a-company call' I mentioned a few years back?"

Like Smadja, Davis had roots outside of the United States. He had come to the country as a child, a political refugee from Iran. A tech prodigy, he entered one of the country's top engineering universities at age 14, graduating with multiple majors. People were surprised to learn that Davis was Iranian. His dad's decision to anglicize his children's names had morphed young Pouya Dariush Esfahani into the quintessentially American Mike Davis.

---

[7] Jake Kendall, Robert Schiff, and Emmanuel Smadja, "Sub-Saharan Africa: A Major Potential Revenue Opportunity for Digital Payments," *McKinsey Insights*, McKinsey & Company, February 2014, https://www.mckinsey.com/industries/financial-services/our-insights/sub-saharan-africa-a-major-potential-revenue-opportunity-for-digital-payments (accessed May 16, 2018).

[8] Stephanie Saul, "As Flow of Foreign Students Wanes, U.S. Universities Feel the Sting," *New York Times*, January 2, 2018, https://www.nytimes.com/2018/01/02/us/international-enrollment-drop.html?_r=0 (accessed Jan. 1, 2018).

The immigrant experience was a theme woven into the company's fabric, and the cofounders incorporated into their business plan support features for immigrants, including networking opportunities, finance and career counseling, credit history development, and gateway financial products. Unlike mainstream lending institutions, theirs was a mission-driven organization whose values were cemented in inclusion and borderless socioeconomic mobility.

In his media interviews, Smadja liked to point out that MPOWER started with "just two guys and a good idea," and since then, the company had grown to almost 30 employees—a majority of them immigrants. This experiential "connection" gave the start-up a unique value-added element to the otherwise impassive business of financing loans.

Setting the Model

MPOWER's underwriting model emerged from a study of US lending innovations, public- and private-sector higher-education data, and nuanced statistical analyses that took in geographic and student differentials, default rates, and competitive lender data. There were statistically significant differences in certain critical loan performance factors. For instance, loan default rates at top universities were significantly below the average, as were default rates for graduate students: at nonselective four-year institutions, the five-year federal loan default rate was a hefty 27% for undergraduate borrowers, compared to 10% for undergraduates at the most selective four-year schools, and 5% for graduate student borrowers.[9] In contrast to federal loans, aggregate private-lender data showed that the loan default rates were about 1.7% for undergraduates and 1.0% for graduate students.[10]

"We meshed all the metrics to grasp the possibilities. We realized we couldn't lend to high-risk freshmen or sophomores due to their outsized dropout rates, and so we settled on undergraduate juniors and seniors and graduate students who had either received admission to a school or were already in-program," Smadja remembered. He continued:

> From there, we created our proprietary credit scoring model, which assesses creditworthiness on an altogether different basis than the norm. What we say is, "Who cares where you come from or how much money your family has, or doesn't have? What really matters is you and your own possibilities. We're making what we like to call 'merit-based loans.'"
>
> Because we were working with students without a US credit history, we focused on an applicant's career potential and based his or her credit score on a number of factors: the attending school, admission scores, the degree and major, grades, internships and work experience, and, most important, projected future earnings. We set a 10-year loan payback term with interest varying between 7.99% and 13.99%, which was in line with other private lenders and much cheaper than payday loans, credit card rates, or loans in the students' home countries.

Students applied through the start-up's online, paperless platform. Once a loan was approved, usually within five days, MPOWER's technology platform originated the loan, which was then sold to a debt facility funded by investors.

---

[9] College Board, Trends in Higher Education 2017, Trends in Student Aid, Student Loan Repayment, Figure 2016_11B, *Five Year Federal Student Loan Default Rates by Institution Type over Time*, https://trends.collegeboard.org/student-aid/figures-tables/loans (accessed Jan. 16, 2018).

[10] "Delinquency Comparisons Across Undergraduate and Graduate Loans," MeasureOne Private Student Loan Report, Q3 2017, p. 12, https://www.measureone.com/downloads/MeasureOne%20Private%20Student%20Loan%20Report%20Q3%202017.pdf (accessed Feb. 8, 2018).

Unlike conventional student loans, MPOWER's model called for students to make small monthly payments, which averaged $200 and were payable within 60 days of the loan's disbursement to the university. Smadja and Davis reasoned that these payments provided a way for students to build valuable credit history while helping shape good credit habits. The process also was insurance, allowing MPOWER to recoup some funds immediately, as opposed to waiting several years until a student had graduated and perhaps returned home.

Loan delinquencies were handled by a US collections firm, although in keeping with its relationship-based client-management approach, MPOWER was directly involved in all delinquency escalations. To recoup payments postgraduation, the company relied on the weight of global collection agencies, non-US domestic credit bureaus, and legal clauses in the loan agreement that could be enforced in 156 countries.

As a public-benefit corporation, MPOWER's objective was to provide services that spoke to a social good or benefit while also providing financial returns to equity shareholders. But Smadja made it clear that his start-up was not a charity. His company profited in two ways: first, through a one-time 5% loan-origination fee, an amount that was rolled into the balance of the loan; and second, through a small spread on the interest charged.

"It's a sound business," he said. "We make money and we're helping students at the same time. It just makes so much sense."

Selling the Vision

The company started out on a shoestring. Despite not being known for his graphic abilities, Smadja designed the website and marketing materials. Each partner contributed savings and paid out-of-pocket expenses. Their first investor, an early mentor of Davis, put in $25,000 in return for a percentage of the company. Collectively, these funds covered the start-up's initial expenses.

Because the business plan called for making loans only to high-potential students, Smadja and Davis targeted first-tier educational institutions as partners. However, their initial strategy of cold calling and letter outreach ran up against a serious credibility problem. Ivy League schools were unwilling to even consider a new and untested financing mechanism promoted by a start-up with no track record. The response to most calls was usually framed by the silent question: "Who is this unknown, two-person company, with a subpar website, telling us they're able to finance our international students?"

At the start-up's core, its pitch deck proved lacking. The way information was presented within Smadja's corporate consulting world didn't translate well into the world of investors. What was standard in global mega-organizations was antithetical to what venture capitalists and angels wanted to see and hear.

After the first few presentations met with withering critiques, the entrepreneurs scrapped their lengthy, narrative-heavy, overly detailed deck, and replaced it with 13 sleek pages of concise, clear, and compelling information—the essentials about MPOWER's mission, market, and investment potential. **Exhibits 2** and **3** show the evolution of the company's pitch deck over a three-year period.

Despite these initial setbacks, within two months of incorporation, Smadja and Davis were invited into a start-up accelerator, Village Capital, where they gained some investor attention. By the five-month mark, MPOWER had raised $107,500. Although far short of the $500,000 the two entrepreneurs had hoped for, it gave the start-up about six months of much-needed financial runway.

One of those first investors, Ruben Hillar, was so impressed with the MPOWER mission that he took on the side role of a part-time consultant. However, his real value to the company came in his uncanny ability to see opportunities others might have missed. He happened to hear an investment presentation by a new, online business-education boot camp affiliated with a top Ivy League school—and it resonated with him immediately.

Despite Smadja's reservations, Hillar encouraged him to talk with the boot camp people. "Let me set something up. We're both start-ups, we need university clients and they need a financing facility, so perhaps we could help one another get some traction," Hillar urged.

Initially, Smadja was not convinced. For one thing, the boot camp drew primarily domestic students, not international ones. "It's not even our market," he objected.

In the end, Smadja agreed to take a conference call with the group's founders. By its conclusion, Smadja realized what Hillar had guessed from the beginning—the low cost of the boot camp program would be a great way to make several small loans, and its short length would enable MPOWER to get repayment data quickly.

The boot camp vetting process was intense. Following a thorough legal review of the start-up, Smadja and Davis were interviewed by the program's principals, representatives from the broader university campus and from its business school, and stakeholders. All these participants listened to their pitch about why, as the only company like it on the market, the MPOWER loan product was a "must-have" for the boot camp *and* for the university's large international student body.

Hillar's intuition was on the mark. Within six months of the start of their new business relationship with the boot camp, the world-renowned university became MPOWER's first Ivy League client.

Smadja believed that, as in most things, "timing was everything," and that came into play again as Village Capital reached out to MPOWER once more, this time to participate in its accelerator for early-stage educational technology (edtech) start-ups. It was a hugely beneficial opportunity. Winning the accelerator's edtech competition in three consecutive selection rounds enabled an investment of $50,000 in MPOWER that, in turn, helped catalyze its seed funding of $1.1 million.

Meanwhile, day-to-day operational challenges continued. The cofounders clashed over a "build-or-buy" question concerning the back-office administrative tasks involved in processing and servicing student loans. True to form, they came down on different sides of the issue. Davis insisted on partnering with an established firm that offered not only a technology-origination platform and processing solutions but also enhanced business credibility. Smadja objected to the level of information sharing that was required and balked at the scope of confidential data their company would have to release.

It stood as one of countless "left versus right" choices the entrepreneurs faced. While agreeing to disagree, they went with the well-known, leading provider—a decision that Smadja later conceded was "the right one."

Although they were well prepared from a technical standpoint, gaining acceptance in the world of higher education proved another challenge. Smadja and Davis mistakenly believed that once MPOWER onboarded its first top-tier client, other institutions would follow suit. That wasn't the case, and the company continued to encounter pushback amid questions about credibility, pricing, and long-term viability.

School officials questioned MPOWER's "high interest rate" as compared to subsidized federal loans, which, Smadja would point out, foreign students in the United States could not access. He would reference the exorbitant financing rates in many of their home countries—15% in India and 30% in Brazil, including cosigners and collateral—to emphasize the intense difficulty students often faced in trying to obtain loans. Many international students had different perspectives from US citizens on what constituted a "high interest rate."

The entrepreneurs also came up against questions of long-term viability. "For universities with 200 years of history behind them," Smadja noted, "a new company with a handful of employees represents a major risk. It's a reputational issue because schools are aware that if something goes awry with a lender they've endorsed, they will ultimately be held accountable in the eyes of students, parents, and the public." These biases initially proved hard to overcome.

The Regulatory Hurdle

In the lead-up to the start-up's first, all-important Ivy League launch in its second year, the regulatory aspects of the business came into play. It was at this point that Smadja had the first inkling of government's considerable sway over their operations.

Historically inflexible regulatory requirements were developed for traditional services, not new business models. As regulators tried to keep up with the growth and proliferation of new fintech companies, old policies prevailed or mingled with emerging new ones. Lending laws differed from state to state, and MPOWER had to determine the prevailing requirements for each state in which it wanted to operate. The problem was that rules and regulations in lending laws were not only state-specific, but universally complex and often ambiguous. Did the start-up need to apply for a consumer lending license, or just register as a business? Did the regulations apply to educational lenders, payday lenders, or credit cards?

The situation was further complicated because few states fully understood how to apply their existing rules and regulations to the new breed of emerging fintech companies. The cofounders' experiences varied by state: Pennsylvania's regulatory approval process proved unclear and confusing, unlike Georgia and Washington, DC, where explicit, straightforward consumer licensing processes saw MPOWER in operation within months, if not weeks. California, on the other end of the spectrum, proved the most difficult—one year into the process, approval was still pending.

Another challenge was that for a fintech start-up with limited resources, getting quality legal advice to sort through the maze of state requirements was problematic. The entrepreneurs were unprepared for the number of business registrations, licenses, incorporations, contracts, and applications. Their first counsel wasn't always reliable, and while their second attorney provided much more accurate advice, the $1,000 hourly rate and associated billable time—even at a "discounted" rate for start-ups—was an unsustainable drain on the company's budget.

"Another consideration," Smadja realized, "is that some firms just aren't used to working with start-ups; others don't realize the complexity of the fintech ecosystem. For example, four years in, MPOWER retains four specialized counsels."

Smadja and Davis found that innovation in financial markets was different than in product markets or consumer markets, where there was less regulatory complexity. Fintech innovations—ones that touched people's wallets—were often far ahead of what the regulatory environment was able or prepared to handle. The legal–regulatory policy framework had to be in place; otherwise the innovation—no matter how good it was—couldn't go forward, or else went forward only in fits and starts. The cofounders learned that financial stability and consumer protection would always trump innovation until the regulatory foundation had solidified.

Nonetheless, the two entrepreneurs looked on the upside. The regulatory challenges and associated costs MPOWER had had to overcome may have proven an effective barrier to future competitors' entry into the international student loan market.

Two Different Worlds

From the start, Smadja had to acclimate himself to "the business of doing business" as an entrepreneur. When he was a corporate consultant, on-the-job behavior was more detached and less emotional. He and every consultant on his team knew that the name and reputation of the McKinsey brand attached credibility and trust to their every word.

Now, he needed to develop an entirely different skill set. He saw that he was viewed differently—one of a thousand unknown CEOs of unknown start-ups. Absent a prestigious, firm brand behind him, Smadja's credibility, and that of his company, had to be built from scratch. In his initial pitches, he found himself relying heavily on his corporate past, dropping his old firm's name as a value token, knowing that it would make his audience respond with greater confidence in his abilities.

Unlike consulting companies, which tended to form short-term relationships, his start-up depended on building deep, long-term relationships—with university decision-makers, service partners, advisers, and investors. Its viability and growth demanded upgraded interpersonal and marketing skills. The fact was, Smadja had moved into the business of selling a product.

In a position where 80% of his job was raising capital, it was imperative that his pitches elicit emotional buy-in and inspire audiences by showcasing his company's value in terms of data points that instilled confidence in its potential and returns on investment. This was an acquired skill. He was not always on point and recalled one stand-out presentation, after which a potential angel had asked "if the business was fundraising right now." Used to highly defined corporate timelines, Smadja reflexively answered, "Well, no, not just now."

Afterward, Davis pulled him aside and counseled that "when ANYONE asks you if you're fundraising, the answer is ALWAYS 'YES'! As a lend-tech company, we're always going to be raising dollars either on the equity side or the debt side. That's one of the nuances of fintech—it's a lot more capital intensive."

At Home and Abroad

The problem of signing up university partners remained. By their own admission, Smadja and Davis rated themselves as "failures" in that effort, and decided to use their seed funding to hire a professional director of university relations.

Kevin McNamara had lengthy experience developing funding programs for graduate and professional school students. Most important, unlike Smadja and Davis, he understood that doing business with educational institutions was an associative profession. It relied on familiarity with campus culture and administrative cycles, and required nurturing and leveraging relationships at all levels.

That hiring decision quickly brought success. Within a few months, McNamara had brought around a number of East Coast "name" schools that previously had turned down MPOWER as a lending partner.

By its third year of operation, MPOWER had started its A round of financing, raising $6 million. As an international lender, it wanted partners abroad, so the question facing Smadja and Davis was where to take the start-up's capital. With almost 25% of its borrowers hailing from India, they made the obvious choice.

The start-up found a conduit to the Indian market through an investor. Within a year, MPOWER had formalized an office in Bangalore, where Country Director Rohan Tibrawalla aggressively expanded operations, business development, and partnerships with the country's leading educational and consulting organizations.

Back home, MPOWER's rapid growth continued. The start-up soon counted 14 states in which it was able to lend. Although licensed up and down the East Coast, the cofounders questioned whether to continue the slow, labor-intensive exercise of state-by-state licensing or instead to pursue a partnership with a financial institution with the legal ability to lend on a national basis. In hindsight, a national bank charter turned out to be one of the few "easy" decisions they faced. The resulting partnership with the Wisconsin-based Bank of Lake Mills allowed MPOWER to gain a national footprint and quickly expand its roster of partner colleges and universities to over 250, spread across the country.

By the end of its third year, the start-up's loan book had grown significantly, for an annual total of $5 million, and it was on track to lend over $20 million by the end of its fourth year in business. It had opened an office in New York and added to its global network of business partnerships. In short, it had made its mark on the student lending industry, and validated Smadja's belief that "students shouldn't be defined by where they come from, but by where they are going." The company's annual loan volume and projections are in **Exhibit 4**.

Innovation and Government

The entrepreneurs were on the cusp of taking their cutting-edge company to the next level when the 2016 presidential election reminded them that markets may not always be the sole arbiters of innovation.

A new and transformed political agenda spawned a series of executive orders that banned or restricted US entry for nationals of a number of foreign countries. Tighter visa application requirements and controls were promulgated. The issue of immigration was hotly debated. There was dramatic pull-and-tug between the executive and judicial branches over executive orders; meanwhile, the country's legislative branch prepared to take up reforms to recast existing laws about legal and illegal immigration, refugees, and student and work visas. In congressional hearings, the intelligence community raised concerns about "Chinese intelligence operatives" active on the nation's campuses, China being the top country of origin for international students.[11]

There was a growing international perception that the United States no longer welcomed a global community of students to its shores or campuses. Foreign students worried that the original travel bans might be greatly expanded, and that possible additional visa restrictions would disrupt or prevent their travel, as well as curtail internship or employment opportunities.[12]

[11] Tim Johnson, "FBI Says Chinese Operatives Active at Scores of US Universities," *Tribune News Service*, February 14, 2018, http://www.msn.com/en-us/news/us/fbi-says-chinese-operatives-active-at-scores-of-us-universities/ar-BBJ73uh (accessed Feb. 16, 2018).

[12] Elizabeth Redden, "Will International Students Stay Away?," *Inside Higher Education*, March 13, 2017, https://www.insidehighered.com/news/2017/03/13/nearly-4-10-universities-report-drops-international-student-applications (accessed Nov. 6, 2017).

One year into the new administration, colleges and universities reported declines in international applications. One survey by the American Association of Collegiate Registrars and Admission Officers found that nearly 40% of more than 250 educational institutions had experienced a downturn.[13]

The Institute of International Education reported that new foreign enrollments declined by an average of 7%, according to a fall 2017 snapshot-in-time survey of over 500 campuses.[14] Compared to a similar survey in 2016, more institutions were attributing the declines to problems with visa delays and denials, high education costs, and the US social and political climate.[15] **Exhibits 5–8** provide an overview of the enrollment declines, survey respondents, and the primary reasons for the downturn.

It was too soon to know if the declining numbers were just a one-time downturn or a snowballing trend, or if they would affect the nation's elite public and private institutions over the long term. Currently, the declines were confined to less selective colleges and universities (**Exhibit 9**).[16] Over the next year, the entrepreneurs would learn if their start-up would experience "trickle-down" fallout. If the downturn migrated into MPOWER's top-tier education market, what would that mean to B-round investments and the company's strong growth projections?

Still, MPOWER had tapped only a fraction of the international student borrowing market—and even with a sustained drop in the overall population, the company had a number of years of exponential growth ahead of it just to serve the existing populations.

Smadja and Davis considered their options. It was probable that, should internationals confront further government legal and policy prohibitions, students would look elsewhere for a global educational experience. In that case, other nations might try to increase their share of international students and benefit economically. Canada, the United Kingdom, and Australia were already strong competitors for the international student market, drawing many Americans as well. In fact, the number of US students studying abroad had more than tripled in the past two decades.[17]

As part of their long-term planning, the cofounders had already considered expanding into Canada. Was it time to aggressively pursue this possibility? With a growing number of international students, Canada was an increasingly business-rich market. Part of its appeal was due to the fact that Canada had made attracting top global talent a priority through its proactive outreach strategy and "express entry" permanent residency program for skilled immigrants. Now, however, the entrepreneurs had reason to look beyond North America.

Critical questions needed answers: What countries represented the highest potential and the lowest risks? What were the market sizes and existing loan options? What were the legal implications for foreign-owned businesses? What did the regulatory environments look like? Was there ready access to loan capital and to credit-reporting data? Was there significant competition? Were there sufficient, reliable in-country service partners? From a tech standpoint, would there be problems in adapting their loan platform for a non-English-speaking country? What were the in-country work opportunities for both students and graduates? What levels of investment were needed?

---

[13] Valerie Strauss, "Why U.S. Colleges and Universities Are Worried about a Drop in International Student Applications," *Washington Post*, July 13, 2017, https://www.washingtonpost.com/news/answer-sheet/wp/2017/07/13/why-u-s-colleges-and-universities-are-so-worried-about-a-drop-in-international-student-applications/?utm_term=.45fdb94d79bf (accessed Nov. 6, 2017).

[14] https://www.iie.org/en/Research-and-Insights/Open-Doors/Open-Doors-2017-Media-Information (p. 21).

[15] Fall 2017 International Student Enrollment Hot Topics Survey, November 2017, IIE Center for Academic Mobility Research and Impact.

[16] Fall 2017 International Student Enrollment Hot Topics Survey; https://www.nytimes.com/2018/01/02/us/international-enrollment-drop.html?_r=0.

[17] "IIE Releases Open Doors 2017 Data," *Open Doors* press release, https://www.iie.org/Why-IIE/Announcements/2017-11-13-Open-Doors-Data (accessed Dec. 7, 2017).

From a lender standpoint, Canada and the United Kingdom were promising. Both had large numbers of international students and relatively high costs of education. **Exhibit 10** provides a comparison of their business environments. However, the cofounders considered another alternative: untapped markets. If MPOWER were to expand beyond US shores, they wondered if it would be advantageous to refocus their client base to domestic students. Would it not advance the start-up's social-impact mission if it targeted high-achieving domestic students in emerging economies like India and Brazil, where loans were hard to come by and interest rates sky-high? See **Exhibit 11** for a review of the higher education climate in each nation.

In Brazil, for example, the growing demand for higher education was at odds with the country's economic woes and, increasingly, the government had turned to the private sector to fill the void.[18] Could MPOWER adapt its model to serve that market?

Then again, was it best for MPOWER to take a wait-and-see approach? Perhaps reaction to the new administration was just that—a short-term response without long-term implications. As for Congress, what was the probability it would pass a sweeping, more restrictive immigration bill?

On the other hand, agency officials had already either proposed or implemented new policy requirements for international students. Would it not be prudent to examine opportunities beyond US borders? Was it too soon? Or worse, when would it be too late? (See **Exhibit 12**.)

As leaders of a Washington, DC–based company, Smadja and Davis respected and welcomed the public sector's responsibility to oversee and integrate new business models into the overarching regulatory framework. Within that structure, MPOWER had established itself as a formidable fintech leader by helping upend the student-lending market. It had successfully pioneered a new path through evolving state regulatory requirements and the exacting processes of licensing authorities. And it had enabled educational opportunities for thousands of the world's most talented, forward-looking students.

For the time being, however, it appeared that the federal government had thrown down an unexpected challenge that placed MPOWER at the crossroads of innovation and public policy. The question now was, "Which way forward?"

[18] Dan Horch, "As Demand for Education Rises in Brazil, For-Profit Colleges Fill the Gap," *New York Times*, June 19, 2014, https://dealbook.nytimes.com/2014/06/19/as-demand-for-education-rises-in-brazil-for-profit-colleges-fill-the-gap/ (accessed Dec. 12, 2017).

Exhibit 1

MPOWERing Global Students

MPOWER's Cofounders

"Enabling high-promise global citizens to further their academic and financial aspirations"

Emmanuel (Manu) Smadja
CEO and Co-founder

Mike Davis
Chief Investment Officer and Co-founder

Source: "About Us," MPOWER Financing, https://www.mpowerfinancing.com/about-us/ (accessed May 10, 2018).

Exhibit 2

MPOWERing Global Students

2014 Presentation Deck (excerpts)

Executive Summary: There's an opportunity for a financing innovator to enter the US higher-education market and focus on underserved students

- **Students in U.S. higher-education currently face a financing need**
  - 70% of college costs fall on students and their relatives
  - Lack of financing continues to be an obstacle for high-schoolers considering college, and a major reason for why current college students drop out
  - Rather than expand financing to fill this market need, private sector lenders have decreased volumes from $23B pre-crisis to ~$7B today mainly due the federal government's stop on backing private loans, credit tightening, and costly service models
- **This need is likely to increase in the years to come**
  - 5-10% annual increases in tuition, continuous expansion in enrollment, decreases in family contribution and a potential slowdown in Fed loan growth will continue to drive the need for financing
- **Traditional financial institutions are not addressing this need and arguably cannot address it with current business models**
  - Several major banks, from BOA to Citi, have moved out of student lending in the past 5 years
  - Profitably addressing this need requires low-cost service models and innovative ways to assess & manage credit risk
- **Meanwhile, innovators such as P2P student lenders, have successfully entered this market with strong financial backing from investors and banks**
  - SoFi & CommonBond(CB) have received ~$100M in capital and >$500M in LOC from banks
- **Still, these new models aren't servicing undergraduates, non-top schools, nor internationals**
  - SoFi focused on refinancing for top MBA/Law/Med school alumni; CB focused on top 25 MBA programs
- **The US' 800,000+ international students, with $24B in annual spend and no federal aid, could be a potential target segment for an innovative financing company trying to enter the market**

Executive Summary: MPOWER has set up a team and started to develop a platform; guidance/funding required to run the pilot at a university

- **To date, MPOWER has set up a team, created a platform mock-up, and tested the market**
  - **Team:** CEO, CTO, and initial board of advisors are in place
  - **Platform mock up:** Mock-site is up at www.mpowerfinancing.com ; X visitors in the past 7 days
  - **Market tested:** Y visitors filled out student loan form & Z filled out the investor/partner form
- **Goals for EOY**
  - **Revenue:** >$5,000 in revenue; >$100,000 disbursed (~5-20 loans)
  - **Partnerships:** at least 1 university and initial discussions with >5 universities / financial partners
  - **Internal:** Platform operational and data specialist/developers onboarded
- **What external help is needed to achieve these goals by EOY**
  - **Guidance / feedback** on plan, objectives, and overall development
  - **Introductions and support for initial info sessions** with the heads of potential pilot universities (e.g., NYU, Columbia, UVA) and financial institutions (e.g., Capital One, Simple)
  - **LOC of $100K** to cover any loan funding gaps during the pilot
  - **Funding of $180K for the next 9 months (2014),** to cover:
  a. Day-to-day operations ($50K): Office space / supplies (~$500 / month), travel (~$1,000 / month), CTO/CEO stipend ($2K /month each)
  b. Platform development & integration with university data systems (~$130K): part-time web-developer ($4K / month), part-time mobile developer ($5K /month), full-time data integration specialist ($5K / month)

Source: MPOWER Financing Presentation Deck 2014, Changing the Game in the U.S. Student Lending Market

Exhibit 3

MPOWERing Global Students

2017 Presentation Deck (excerpts)

Problem: High-potential international students are left out of financing because domestic and international lenders aren't equipped to work with them

Poorly served despite high-income potential because lenders lack important capabilities in risk, operations, and marketing

International students have high-earning potential post-graduation ….

Annual average salary for H1B jobs offered by top U.S. employers

But no domestic lender serves them today …

- ❑ No credit without a FICO score/U.S. co-signer
- ❑ Lack of marketing/sales channels to reach students overseas
- ❑ Limited international servicing and collections capabilities

And home country loans are either unavailable or expensive

- ❑ Interest rates >30% in some countries
- ❑ Black box credit decisioning with property required as collateral
- ❑ Forex risk
- ❑ Limited reach and loan amounts

Solution: MPOWER's product is a 21st century loan for international students

Accessible online worldwide 24/7, direct school disbursement, automatic reporting to credit bureaus, global payments

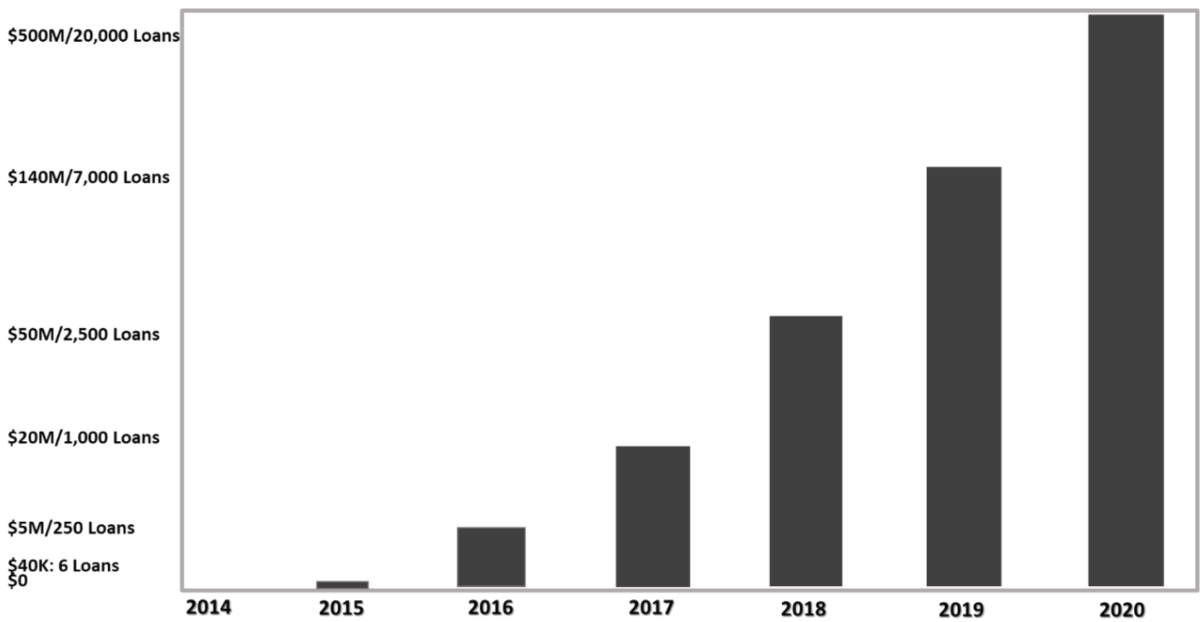
- ❑ **Innovative credit scoring** based on student's future potential
- ❑ Covers **tuition, housing, meals** and other school expenses
- ❑ **Paperless** process
- ❑ **Direct disbursement to university**
- ❑ **Credit building** through small payments while in school
- ❑ **Global payments** enabled in 180+ countries

Source: MPOWER Financing Presentation Deck 2017, Empowering the World's Future Engineers, Doctors, and Business Leaders

Exhibit 4

MPOWERing Global Students

MPOWER Loan Volume and Projections, 2014–20



Source: MPOWER Financing

Exhibit 5

MPOWERing Global Students

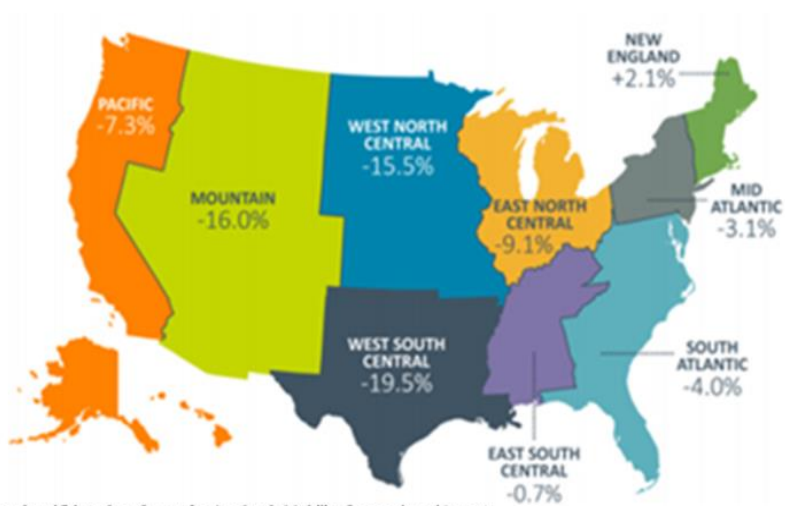
Percent Changes per Year of New International Students Enrolled

Source: Institute of International Education, Center for Academic Mobility Research and Impact, Fall 2017 International Student Enrollment Hot Topics Survey

Exhibit 6

MPOWERing Global Students

New International Student Enrollment Changes (%) by Geographic Region

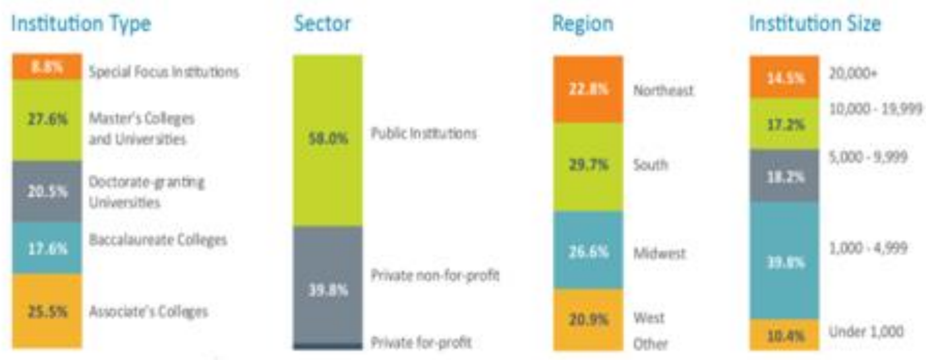


Source: Institute of International Education, Center for Academic Mobility Research and Impact, Fall 2017 International Student Enrollment Hot Topics Survey

Exhibit 7

MPOWERing Global Students

Profile of Respondents to 2017 Hot Topics Survey

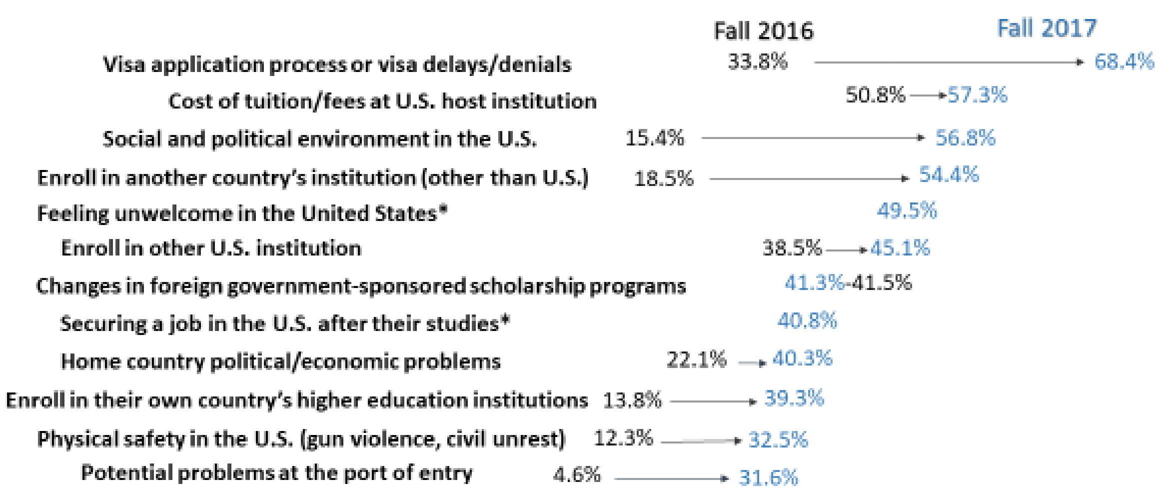


Source: Institute of International Education, Center for Academic Mobility Research and Impact, Fall 2017 International Student Enrollment Hot Topics Survey

Exhibit 8

MPOWERing Global Students

Top 12 Reasons for Declining International Students, Fall 2016 and 2017



* No comparable data to prior years

Source: Institute of International Education, Center for Academic Mobility Research and Impact, Fall 2017 International Student Enrollment Hot Topics Survey

Exhibit 9

MPOWERing Global Students

New International Student Enrollment Based on Institutional Selectivity*

Institutional Selectivity	% Change Since Fall 2016
90% or more accepted	- 23.9%
75.0 to 89.9% accepted	- 13.4%
50.0% to 74.9% accepted	- 9.8%
25.0% to 49.9% accepted	- 4.0%
10.0% to 24.9% accepted	2.5%
Less than 10% accepted	6.3%

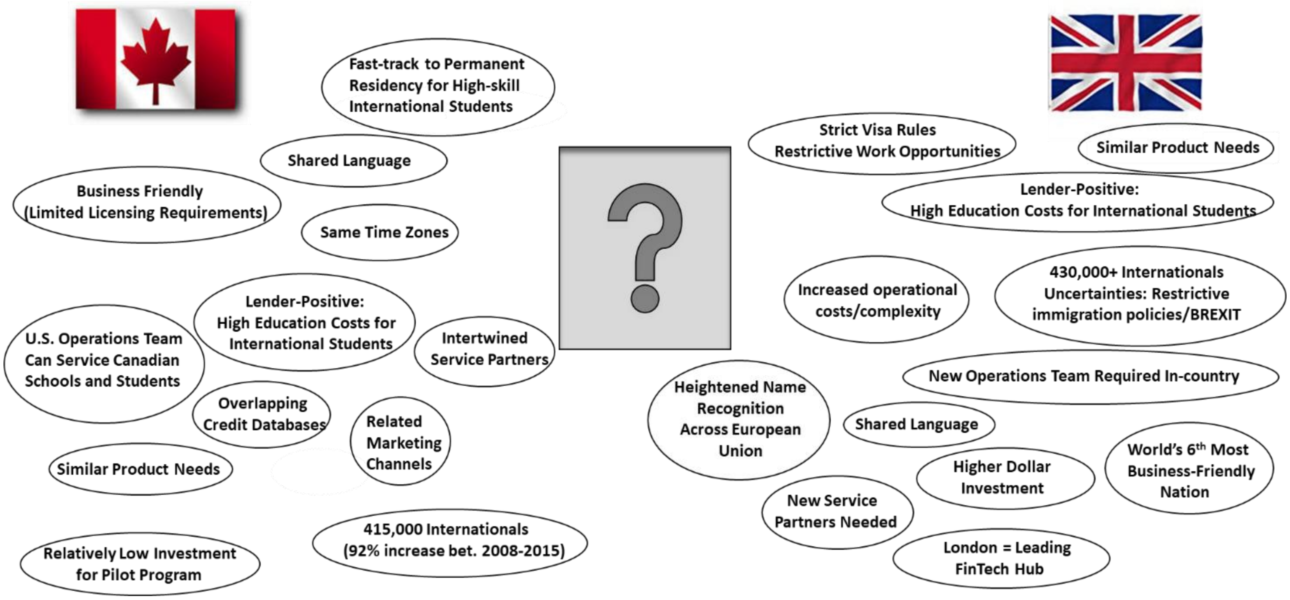
*Based on a 2017 survey of 522 higher education institutions throughout the U.S., conducted by the Institute of International Education in partnership with 10 higher education associations.

Source: Institute of International Education, Center for Academic Mobility Research and Impact, Fall 2017 International Student Enrollment Hot Topics Survey

Exhibit 10

MPOWERing Global Students

International Students: Expand to Canada or the United Kingdom?



Source: Author analysis.

Exhibit 11

MPOWERing Global Students

Domestic Students in India and Brazil

Domestic Students in India

Snapshot
Higher education system is 3rd largest in the world, w/a number of prestige universities

Overall, highly complex structure, governance, autonomy

Systemic reforms ongoing to address:
- Supply-demand gap
- Low quality teaching/learning outcomes
- Constraints on research/innovation
- Uneven access to opportunity

Negative influence of "for-profit," private institutions lacking quality/transparency, and preying on rural and semi-rural students

Strong emphasis on tech/engineering fields

Market
High poverty level; small middle class

About 25% of college-age students enrolled

Outbound flow of students to U.S. (186,264) and Europe for higher education

Small market relative to financing international/domestic students in U.S.

Operating Environment
Significant legal and regulatory hurdles

Intricate consumer lending regulations

Cost of education is comparatively low or free

MPower Financing has a presence, partners, and foothold in-country

Highly competitive landscape

Opportunity or Risk?

Domestic Students in Brazil
Free Public Universities versus Fee-paying Private Universities

Public Universities
- 2016: 3 million students competed for 230,000 places at elite public educational institutions
- Students disproportionately are from wealthy families and prepare for the placement exam at private schools

Private Universities
- Comprise three-quarters of total number of Brazil's higher-education institutions
- Students are poorer, from lower economic strata
- Annual tuition: $2,000 to $10,000+ US
- Government funded, low-cost student loans scaled back in economic recession: 2014, 730,000 students; 2016, 250,000 students
- Consumer loans available with co-signers, etc., at high interest rates, short maturities

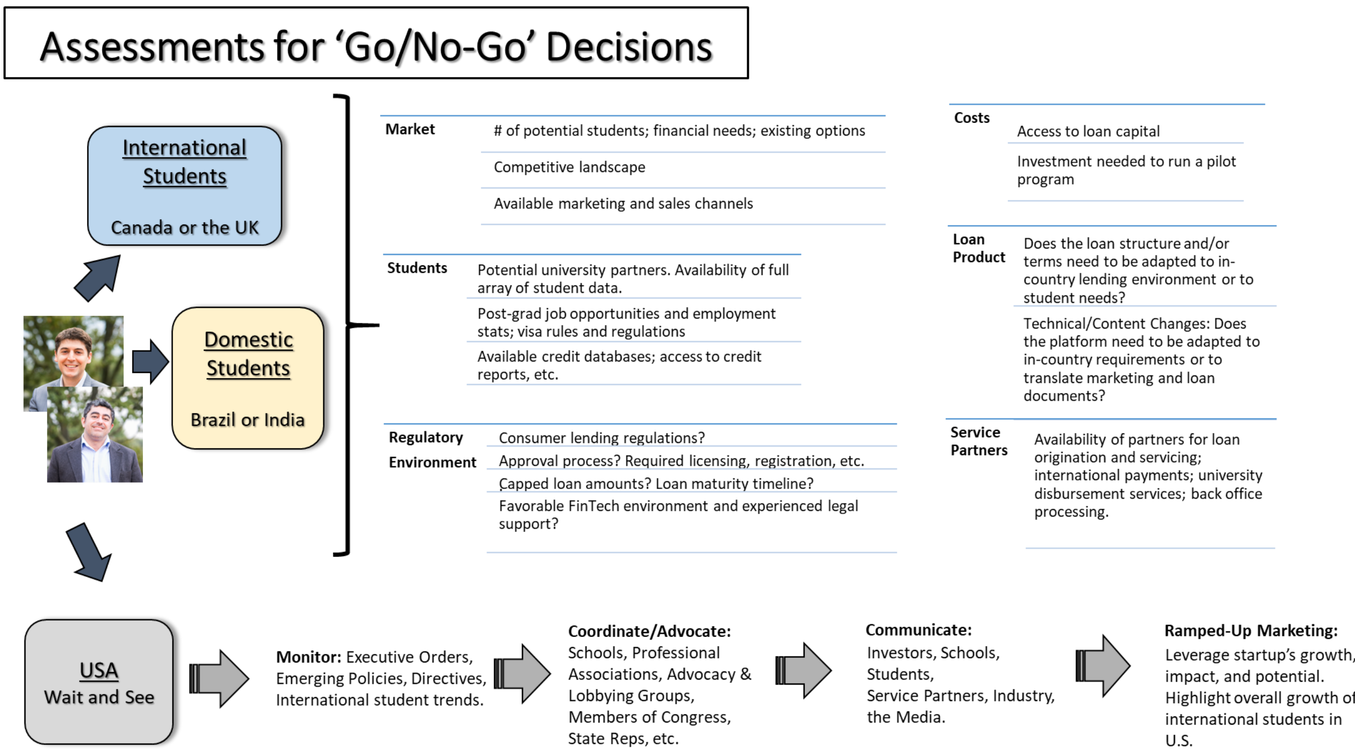
An untapped market?

Source: Author analysis.

Exhibit 12

MPOWERing Global Students

Potential Steps Forward



Source: Author analysis.