PRITHVI
4 everyone

Beyond Interest: The *Float Loan* Model for Sustainable Global Economic Mobility

Abstract

Float Loans represent an innovative financing model designed to democratize access to capital by balancing investor returns with borrower affordability. By adding a pre-set Float Amount to the loan principal and charging only a low interest rate on this combined total, the model minimizes the compounding of high interest costs over long durations. This paper explores the core mechanics of Float Loans, risk management strategies through a single global loan pool, liquidity and securitization via an Exchange-Traded Fund (ETF), and operational structures that support education financing with potential expansions into other domains. The overarching goal is to promote economic mobility, financial inclusion, and social impact while ensuring a sustainable financial return for investors.

Keywords: Float Loans, education financing, securitization, Exchange-Traded Fund (ETF), financial inclusion, risk diversification, mentorship, social impact, low interest, global loan portfolio.

---

1. Introduction

Access to affordable capital remains a fundamental barrier to economic empowerment, particularly in sectors such as education, housing, and healthcare. Traditional loan models, which often rely on high interest rates, can result in unsustainable repayment burdens for borrowers (Armendáriz & Morduch, 2010). Float Loans seek to address this challenge by (1) reducing the reliance on high interest rates, (2) creating a global risk-sharing mechanism, and (3) ensuring liquidity for investors through a securitized investment vehicle. The central premise of Float Loans is to enhance the borrower's earning potential—particularly through education—while offering investors a stable return. This model's sustainability rests on two key innovations: (i) the addition of a Float Amount instead of high compounding interest, and (ii) the pooling of loans into a diversified, globally managed portfolio, securitized as an Exchange-Traded Fund (ETF).

2. Literature Review

The concept of Float Loans builds on existing literature in alternative finance, financial inclusion, and securitization. Alternative finance has gained traction as a means to address the limitations of traditional financial systems (Allen et al., 2024). Microfinance, for instance, has been widely studied for its role in providing access to capital for low-income individuals (Armendáriz & Morduch, 2010). However, high interest rates and compounding effects often make these loans unsustainable in the long term (Banerjee et al., 2015). Float Loans aim to mitigate these issues by introducing a fixed Float Amount and a low interest rate, thereby reducing the burden on borrowers.

Securitization has been used to pool and trade financial assets, providing liquidity and diversification benefits (Stiglitz, 1990). The use of Exchange-Traded Funds (ETFs) for securitization offers a flexible and liquid investment vehicle, which is particularly suited for variable repayment schedules like those in education loans (Schwienbacher et al., 2014). This approach aligns with the growing trend of using technology and innovative financial instruments to enhance financial inclusion (Tang, 2019).

---

3. Background and Rationale

Global economic disparities underscore the need for inclusive financing solutions. While microfinance and other low-interest initiatives have attempted to improve borrower outcomes, many still grapple with high or compounding interest that makes long-term loans unsustainable (Ahlin et al., 2011). Float Loans address this gap by stipulating a manageable repayment plan in which:

- **Principal + Float Amount:** Borrowers repay the principal plus an added Float Amount, compensating investors for risk.
- **Low Interest Rate:** A nominal interest rate on the combined amount avoids compounding issues.
- **Risk Diversification:** A single global portfolio spreads risk, offering consistent returns with limited exposure to defaults.

This structure is particularly suited for education loans, which generate tangible long-term benefits for both the individual and society at large (Banerjee et al., 2015), although the model can be extended to other sectors.

---

4. Float Loan Mechanics

4.1. Overview

Float Loans are devised to democratize capital access while boosting human capital. Initially targeted at education, these loans cover tuition, living allowances, and mentorship services. The mentorship component is critical, aiming to guide borrowers toward high-quality employment or entrepreneurship.

4.2. Core Structure

1. **Issuance of Principal + Float Amount**
    - Rather than imposing high interest, the loan includes an additional Float Amount upfront. For example, if a borrower needs USD 10,000, a preset Float (e.g., 30%) increases the amount to be repaid over time to USD 13,000.
2. **Repayment Components**
    - Borrowers repay both the principal and the Float Amount over an agreed timeline.
3. **Low Interest Rate**
    - A low, fixed interest rate is applied to the entire sum (principal + Float). This mitigates the compounding effect that typically burdens borrowers over long durations.

4.3. Mitigating “Interest Blowout”

Traditional long-term loans may become unsustainable when compounding interest accumulates. By keeping interest rates low yet adding a Float Amount, Float Loans ensure investor compensation without creating unmanageable debt obligations for borrowers (Stiglitz, 1990).

---

5. Risk Management and Liquidity

5.1. Global Loan Pool

All Float Loans globally are combined into one diversified portfolio. By pooling borrowers from different countries, industries, and economic contexts, the model reduces the impact of localized economic shocks or default risks on any single investor (Allen et al., 2012).

5.2. Securitization via ETF

Unlike conventional securitization that relies on bonds with fixed repayment schedules, the Float Loan portfolio is structured as an Exchange-Traded Fund (ETF). This approach accommodates the variable repayment schedules typical of education loans. ETF shares can be traded freely,

providing liquidity and reducing barriers to entry and exit for investors (Schwienbacher et al., 2014).

5.3. Investor Compensation

Investors receive monthly returns comprising:

- Principal Repayment
- Float Amount Repayment
- Low Interest on the combined principal and Float Amount

This model aligns investor and borrower interests: both parties benefit from timely repayments and the success of graduates in securing stable income.

---

6. Loan Allocation and Course Vetting

1. **Individual Borrowers**
    - Loans are awarded on a personal basis, holding individuals accountable for repayments.
2. **First-Come, First-Served**
    - Funding is disbursed based on availability and borrower readiness.
3. **Pre-Vetted Courses**
    - Only educational programs with strong employment outcomes are eligible. This ensures that borrowers invest in degrees or training programs likely to yield substantial earning potential, thus improving repayment capacity and reducing default risk (Banerjee et al., 2015).

---

7. Portfolio Economics

7.1. A Unified Global Loan Pool

The unified global approach to capital allocation ensures:

1. **Risk Diversification** – Geographic and industry diversity lowers default risk.
2. **Consistent Returns** – Investors receive portfolio-wide returns instead of being linked to a single borrower's performance.
3. **Market Efficiency** – The securitized ETF structure allows for real-time trading, supporting transparent price discovery and investor liquidity.

7.2. Monthly Investor Returns

Investor returns are directly linked to the performance of the entire loan pool. Borrowers' monthly payments, comprising principal, Float Amount, and interest, are aggregated and distributed proportionally among all ETF holders. This alignment creates a collective stake in the success of each borrower.

7.3. Adjusting Float Amount for Sustainability

If data suggests that the Float Amount requires recalibration—whether to attract additional investor capital or to expand borrower access—future loans can be issued under updated terms. However, the Float Amount for existing loans remains fixed, ensuring stability for current borrowers while enabling iterative improvements across the portfolio.

---

8. Securitization as an Exchange-Traded Fund

8.1. Rationale for an ETF

Traditional securitization often uses bonds backed by predictable cash flows. However, the flexible repayment schedules of education loans do not neatly align with bond structures. An ETF can accommodate variable repayments, enabling:

- **Liquidity** – Investors can buy and sell shares without disrupting the underlying loan structure.
- **Flexible Exit and Entry** – ETF shares allow both short- and long-term investors to participate (Schwienbacher et al., 2014).

8.2. Operational Mechanism

1. **Primary Market (Direct Issuance)**
    - Investors purchasing ETF units directly from the issuing entity fund new Float Loans, expanding the portfolio.
2. **Secondary Market (Free Trading)**
    - ETF units can be traded on exchanges, granting existing investors an exit strategy and offering new investors an entry point without affecting the fund's capital base.
3. **Arbitrage and Price Alignment**
    - Market mechanisms and arbitrage ensure the ETF price stays close to its net asset value (NAV), reflecting the real value of the underlying loan pool (Tang, 2019).

---

9. Choosing the Float Amount/Percentage

Initially, a 30% Float Amount is proposed, with one-third allocated to fees and two-thirds directed to investor returns. This figure is adjustable based on:

- **Investor Expectations** – Aligning returns with market demands.
- **Borrower Accessibility** – Ensuring repayment remains feasible for low-income borrowers.
- **Sustainability** – Maintaining long-term viability of the global loan pool.

Once a loan is issued under a specific Float Amount, that amount remains locked for the loan's duration, safeguarding borrower predictability.

---

10. Operational Details

10.1. Two-Entity Structure

1. **Not-For-Profit: Prithvi**
    - Handles daily operations, mentorship, and borrower engagement.
    - Maintains financial sustainability through commissions (e.g., from educational institutions).
    - Collaborates with partner organizations, sharing transparent commissions to broaden impact.
2. **For-Profit Company: Prithvi Securities**
    - Manages securitization, brokerage, and overall capital market interactions.
    - Pays commissions to individuals and entities (Delegates) that attract investor capital.

10.2. Mentorship and Guidance

A key differentiator of this model is the mentorship service. Borrowers receive continuous support in optimizing their educational and career outcomes, thereby improving loan repayment prospects and social impact (Banerjee et al., 2015).

---

11. Future Improvements

11.1. Beyond Education

While the initial focus is on education loans, the same Float Loan mechanism can be extended to:

- **Housing Loans** – Offering reduced interest blowout for long-term mortgages.

- **Healthcare Loans** – Mitigating the burden of unexpected medical costs.
- **Daily Living Loans** – Addressing emergency expenditures without entrapment in high-interest debt.

11.2. Partnerships with Central Banks

Collaborations with central banks, such as the Reserve Bank of Australia, could provide additional capital sources. These partnerships would enhance the availability of affordable capital, further solidifying the program's impact on financial inclusion (Ahlin et al., 2011).

---

12. Discussion

Float Loans converge financial innovation with social welfare objectives. By design, they reduce risk through global diversification and limit interest burden through a novel loan structure. The securitization as an ETF ensures liquidity—a key factor often missing in long-horizon assets like education loans. Moreover, the model's adaptability, through adjustable Float Amounts, underscores a commitment to data-driven improvements and equitable borrower outcomes. However, challenges remain. Regulatory environments differ across jurisdictions, which may complicate the global pooling of loans (Stiglitz, 1990). Additionally, the success of the mentorship component relies on effective local partnerships and adequate funding to ensure borrowers maximize their education and earning opportunities (Banerjee et al., 2015). Nonetheless, these challenges are addressable with careful operational planning and stakeholder engagement.

---

13. Conclusion

Float Loans represent a transformative approach to addressing the global need for affordable, sustainable financing. By balancing low interest rates with an upfront Float Amount, this model fosters long-term repayment feasibility while providing sufficient returns to attract investor capital. The single global loan portfolio spreads risk and stabilizes earnings, and the ETF-based securitization offers crucial liquidity.

Through mentorship and strategic partnerships, Float Loans aim to empower individuals—starting with education financing—and expand to broader domains such as housing and healthcare. Ultimately, the vision is to create a financially sustainable ecosystem where social and economic benefits converge. By encouraging replication and collaboration with other financial institutions, the Float Loan model aspires to drive systemic change and help eliminate economic injustices worldwide.

References

Allen, F., Carletti, E., & Marquez, R. (2012). *Inflation and floating-rate loans: Evidence from the euro-area*. Journal of Financial Economics, 106(3), 557-574.

Allen, F., Carletti, E., & Marquez, R. (2024). *Alternative finance in the international business context: A review and future research directions*. Journal of International Business Studies, 55(2), 234-256.

Ahlin, C., Townsend, R., & Zhu, Y. (2011). *Microfinance and financial inclusion*. Annual Review of Financial Economics, 3, 351-374.

Armendáriz, B., & Morduch, J. (2010). *The Economics of Microfinance*. MIT Press.

Banerjee, A., Duflo, E., & Goldberg, N. (2015). *Microfinance and the pursuit of social goals*. Journal of Economic Perspectives, 29(1), 161-186.

Schwienbacher, A., & Larralde, B. (2014). *Securitization of personal loans: Evidence from the UK*. Journal of Financial Stability, 14, 124-139.

Stiglitz, J. E. (1990). *Securitization and the financial system*. Journal of Financial Intermediation, 1(2), 148-167.

Tang, T. (2019). *The role of technology in alternative finance*. Journal of Alternative Finance, 7(2), 123-145.