

Flow Loans for Education

A Novel Approach to Improving Global Living Standards

Low educational attainment is a major cause of poverty, limiting earnings and social mobility. Expanding access to tertiary education can raise both individual incomes and broader living standards. Yet current financing models leave higher education out of reach for many.

Flow Loans address this by offering an inclusive, long-term financing solution that makes education accessible regardless of upfront financial capacity. While the model has broader applications, this paper focuses on its use in education.

What are Flow Loans

Flow Loans are long-term loans where borrowers repay more than the principal—this excess, the **Gap Amount**, functions as built-in insurance against default. It compensates lenders for time, risk, and duration without relying on interest hikes.

Unlike traditional loans that use high interest to manage risk (often making loans less affordable), Flow Loans integrate the Gap directly into the repayment, as a fixed percentage of the principal. Interest is then applied to the **Flow Amount**—the total to be repaid.

Loan Issuance

Loans are issued in large **cohorts** by a wholesale Flow Loan lender, funded via credit creation by partner banks. Each cohort targets a specific borrower group (e.g., students in a given year).

Instead of direct lending, the wholesale lender allocates funds to accredited **Loan Management Companies (LMCs)** who handle borrower evaluation, disbursement, and servicing. This structure enables scale and efficiency: the wholesale lender manages risk and capital, while LMCs support borrowers.

Each cohort follows standardised terms—Flow percentages, Gap calibrations, and underwriting rules—facilitating eventual **securitisation** and consistency across the portfolio.

Securitisation

Flow Loans use **partial securitisation** through an Exchange-Traded Fund (ETF), enabling liquidity and investor participation while maintaining control of most of the loan book.

This hybrid model balances investor access with flexibility in borrower repayment terms, supporting both stable returns and inclusive service delivery.

Why They Work

Flow Loans are effective because they:

- Benefit from real market inefficiencies, specifically, credit exclusion and underinvestment in human capital.
- Reduce risk via diversified cohorts, improving portfolio stability.
- Address rising demand for skilled labor by funding broader access to education.
- Support digital economic transition by including those excluded from traditional financing.

Benefits

For Individuals

Flow Loans offer immediate liquidity for education to those without capital or income, aligning repayments with future earning capacity and enabling upward mobility without unsustainable debt.

For Education Providers

Institutions can serve a more diverse student base without financial compromise, as enrollment is no longer tied to upfront payment ability.

For Financiers

Flow Loans open access to a large, underserved market:

- **Banks** gain scalable, low-risk assets with built-in credit protection via the Gap.
- **Institutional investors** benefit from long-term, asset-backed income streams with attractive risk-adjusted returns.

For Society

Flow Loans decouple economic opportunity from wealth:

- Greater education access eases pressure on low-wage labor markets, pushing up wages organically.
- Higher earnings increase tax revenues, funding better public services without higher taxes.
- Over time, this drives inclusion, mobility, resilience, and productivity across the economy.