

PROJECT ABSTRACT

Project Number: BR-L1116
Project Name: Banco Schahin Lending Facility
Total Project Amount: US\$60 Million
IDB Participation: US\$40 Million Total: US\$30 Million A-Loan and US\$10 Million B-Loan
Department: Private Sector Department
Status: Approved By Private Sector Committee
Approval Date: April 5, 2007

Background

Over the last two years in Brazil, the volume of consumer finance has increased substantially due to improvements in the macroeconomic environment such as lower inflation, decreases in the unemployment rate since 2004, and a reduction in the local interest rate. The consumer finance sector in Brazil has grown 25% in the last year with remarkable growth in the personal loan and vehicle financing modalities. Personal loan growth has primarily been driven by the paycheck deductible loans, which as of December 2006 constituted 20.2% of the total consumer finance market, and totaled US\$22.2 billion. This amounts to a 50.4% increase in the volume of paycheck loans in comparison to the December 2005 total.

Project Description

The borrower, Banco Schahin (“Schahin”) is a privately owned commercial bank specialized in consumer and commercial financing that was established in 1989 and is headquartered in São Paulo. Schahin maintains an extensive¹ network of bank correspondents and sales points, which have enabled it to become a significant player in its niche markets, namely payroll deductible lending to public sector employees and consumer financing. With total assets of US\$721.7 million as of December 2006, Schahin is a small bank in Brazil. However, the Bank is the fourth largest bank in Brazil in terms of origination of paycheck deductible loans if off-balance sheet loans are also included.

The purpose of this operation is to support Schahin to increase its consumer financing credit portfolio, to expand access to the international financial markets and to extend the tenor of its funding. The proposed IDB loan would provide a US\$30 million Senior A loan and a US\$10 million B loan, with a tenor of up to seven and five years respectively, which would enable Schahin to expand its activity in the fastest growing consumer finance sector in Brazil: paycheck deductible lending, particularly to public employees and Brazilian National Institute for Social Security (“INSS”) retirees². The goal of the project is to expand access to consumer finance and enable a more competitive banking market to ultimately benefit consumers with lower spreads for consumer finance.

¹ As of November 2006, Banco Schahin had 8,320 points of sale for their consumer products, located in all 27 Brazilian states, comprising of 7,583 *Cifra* sales venues and 697 bank correspondents. The bank correspondents originate loans for Banco Schahin for a fixed commission in exchange for technical and legal support.

² Paycheck deductible loans are loans which are repaid by direct deductions from employees’ salary payments or INSS (Brazilian National Institute for Social Security) retirees’ benefit payments.