

# How the political instability has affected the Brazilian banking system in terms of student loans?

Dissertation submitted in part fulfilment of the requirements  
for the degree of

MBA in Finance

at Dublin Business School

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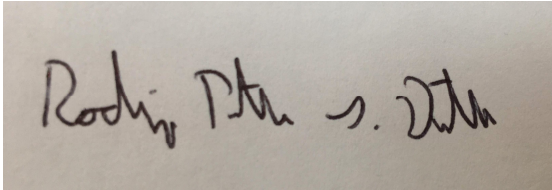
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**MBA Finance stream**

**2018**

## Declaration

I, Rodrigo Dultra, declare that this research is my original work and that it has never been presented to any institution or university for the award of Degree or Diploma. In addition, I have referenced correctly all literature and sources used in this work and this this work is fully compliant with the Dublin Business School's academic honesty policy.

A rectangular image showing a handwritten signature in black ink on a light-colored background. The signature reads "Rodrigo Dultra" followed by a stylized flourish.

Signed:

Date: 10/05/2018

## **Acknowledgement**

I would like to express my gratitude to all the people who made this dissertation possible and who have contributed to my entire academic development during my Masters in Business Administration with emphasis in Finance at Dublin Business School in this last academic year.

Firstly, I would like also thank my entire family who has been encouraging and giving me all the support all the time, allowing me to finish not just my first degree but also this postgraduate one. They have always been proud of my achievements under every circumstances.

Secondly, I would like to thank my classmates that have worked and studied with me during all the modules as well as all the lectures that assisted me patiently throughout the course.

Thirdly, thank to my supervisor Enda Murphy who has contributed with his support, motivation and advices throughout my dissertation supervision.

Finally, thank to all my friends in Brazil and Ireland for the support and moments together.

## **Abstract**

Brazil is currently passing through a unique moment in its history. A mass corruption scheme has been under investigation over the last three years and it has made many politicians be convicted and go to jail. Accordingly, the former president Dilma Rousseff suffered an impeachment and, differently from the one that Fernando Collor suffered in 1994, this time there is a political instability affecting not just the current economic conditions with entire industries suffering many jobs loss but also the next political elections with the favourite candidate and former president of Brazil, Luiz Inacio Lula da Silva, arrested. Accordingly, the economic situation is much worse and some industries have been strongly affected. However, what has not been addressed yet is to what extent this political instability has affected the student loans, an important aspect for to continuous development of the country.

As a result, this research aims to assess how the student loans have been affected by the political instability in the country. Accordingly, primary data and second data were collected in order to run the analysis on the theme. The first one was collected from interviews and questionnaires while the second one from articles, books and academic articles to constitute the literature review. Moreover, gaps were identified in the existing knowledge about the theme and were discussed and analysed.

In addition, it has been taken an interpretivism + positivism, inductive, survey, mixed-methods, cross-sectional, qualitative + quantitative research design, which is explained in the research methodology chapter. Furthermore, this research contributes in the relation between political instability and student loans by assessing the Brazilian situation at the moment.

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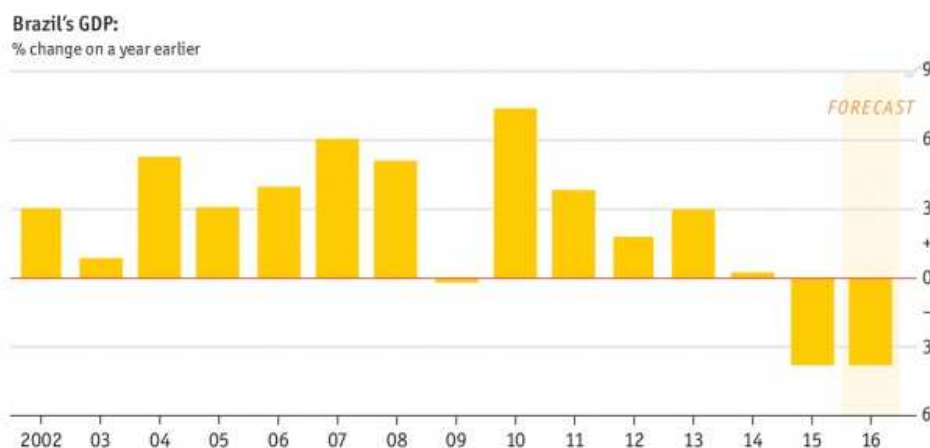
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# 1. Introduction

During the last few years, Brazil has been passing through several political scandals such as the Lava Jato investigations with most of the politicians such as the president, senators and governors under investigation as well as construction companies proven to be involved such as Odebrecht, OAS, and Queiroz Galvao (Pamplona, 2017).

In the beginning of 2015, the former president Dilma Rouseff suffered an impeachment and Michel Temer took over her position. However, he is also being investigated as well as most of the possible candidates for the next presidential elections on September 2018, which increases the political instability environment in the country. For instance, Geraldo Alckmin and Jair Bolsonaro are some of the main candidates according to media forecasts but both can be arrested even months before the elections (GLOBO, 2017). Moreover, Luiz Inacio da Silva, Lula, the favourite candidate was arrested in April 2018 after being convicted for corruption (O GLOBO, 2018).

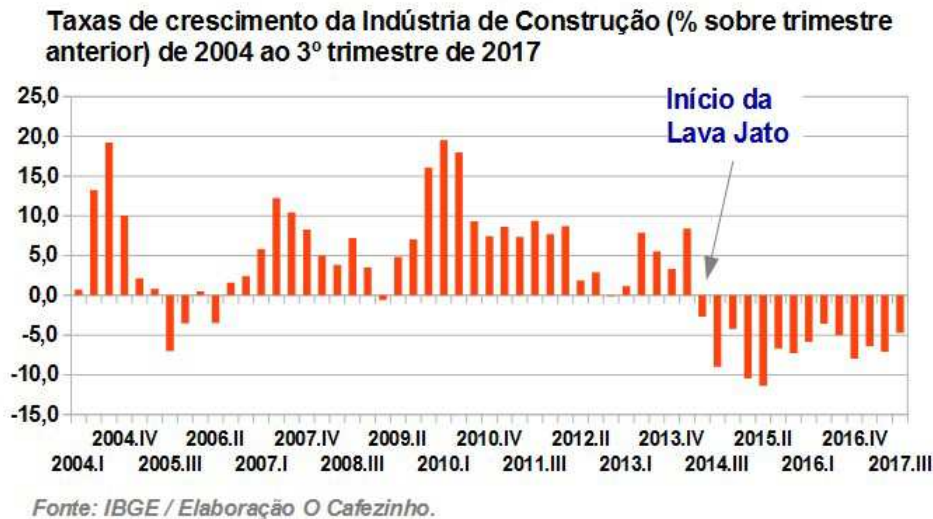
In addition, due to the corruption investigation, some industries such as gas and petrol, retail and meat have been progressively affected. For instance, the economy situation was worsened with scandal in huge companies such as the public organisation Petrobras, which holds the monopolism of petrol as well as the private meat provider Friboi, which was proved to fake the quality results of the meat standards (GLOBO, 2017). As a result, the Brazilian economy has been strongly affected by the political crisis with decrease on its GDP and consumerism as well as the growth of unemployment rates. The graphics below illustrate how the Lava Jato operation, which started in 2014 has impacted the economy in Brazil, specifically the GDP (Nozaki, 2018).



**Figure 8 – Brazil GDP from 2002 to 2016. Source: Nozaki, 2018.**

For instance, the gas and oil sector was responsible for roughly 13% of the GDP in Brazil and it was expected an investment package of U\$ 220 billion for the period between 2014 and 2018 just in Petrobras. However, due to the Lava Jato operation, the sector was responsible for half of the GDP decrease since 2014 and more than 20,000 suppliers were affected. Another example of an industry

impacted by the instability is the civil construction which, according to the graphic below, has decreased up to 15% in comparison to past rates. Approximately 100,000 employees have lost their jobs, which contributed to an increase in the sector unemployment rate of 72% in the period (Nozaki, 2018).



**Figure 9 - Growth rates in Construction industry. Source: IBGE, 2017**

Moreover, another important sector for the Brazilian economic development is the Student sector. In general, there are more than 70 million students in Brazil currently, which approximately 10% is represented by tertiary education. It is divided in public and private institutions with a huge price difference between both which makes it necessary for many people to request student loans in order to make it possible to finish their degrees (Investinbrazil, 2017). However, what it has not been addressed yet is the effects of the political instability on the provision of these loans.

Furthermore, the address of the issue is not just important for the students but also to assess whether such an important aspect of the economy has fluctuated during the crisis. According to Zanuja Branco (2012), Brazil, India and China were part of the five economies that grew the most in the last decade and they were also some of the nations that invested the most in tertiary education. This is a very relevant aspect for the economy because it can improve historical issues that disturb this country development such as unskilled labour and low production rates (Branco, 2012).

In addition, a student loan can be obtained in private and public banks. It presents simple repayment methods, low interest rates and it covers all the living needs for the student such as rent and food. The most popular and relevant student loan system in Brazil is run by the Fund of Student Financing (FIES), a government body created in 1976 to select students in order to provide them loans for private institutions and which has a budget of R\$ 13 billion per year and 26% of the total current students in university, which shows the relevancy and magnitude of the body. Its popularity is due to

a much lower rate, 3.4% per year, in comparison to private institutions that present a rate of roughly 7% and that it is the reason for the vast majority of student loans been obtained in the public sector (MEC, 2017).



**Figure 10: FIES. Source: FIES (2018).**

Moreover, according to the OECD (2011), people who have tertiary education in Brazil earns 2.5 time more than people who do not, which represents the biggest difference in a list of 30 countries of the survey conducted by the organization. Accordingly, it also illustrates the social inequality presented in the country and how important is for students to have a degree in Brazil (OECD, 2011).

### **Research question:**

**How the political instability, with politicians being investigated by corruption accusations, has affected the Brazilian banking system, in terms of student loans so far?**

There is existing literature on important and related topics such as the relation between the banking industry and the politics/economy of a country like the one written by Philipp Hartmann, the Brazilian banking system with Geraldo Maia being one of the most popular authors on the topic; and banking loans written by Paulo Sapienza. However, as explained with more details in the next section, none of these researches have been addressed to what extent the Brazilian banking system has been affected due to the political instability in terms of its student loans. They address their subjects in a more general perspective and do not relate it to the Brazilian situation. Furthermore, the studies that are about the Brazilian banking system are more descriptive rather than analytical and they do not include the current political crisis nor the student loans as explained in another section further.

The reason for that is for being a much updated topic since the political instability only started in February of 2015, it is the first time that such uncertainty has hit the country and for not having the students angle in any research done so far. In this way, this paper would contribute to the literature on the relationship between banking and politics with the example of the current Brazilian situation

with its student loans.

Accordingly, some sub-research questions have to be answered in order to assess it.

**Questions for bankers:**

**How student loans have performed?**

**How student loans have been impacted by the political scandals?**

**Have student loans been diminished in terms of quantity since?**

**Has the student loan budget suffered any change since?**

In order to know if the student loans have been suffered any effect or not from the political situation it is going to be asked the two parts that are involved the most: bankers and students. The questions will be answered through individual semi-structured interviews with the first ones and questionnaires with the second from different backgrounds as explained in another section further.

**Question for students:**

**Has your student loan suffered any change since the political instability started in February 2015?**

The hypothesis is that student loans suffered the effects of the political instability. In addition, the variable that is intended to measure with this question is the student loan in order to compare the two possible answers for it: yes or no. In this way, it would be able to get a sense if students are suffering from the political instability or not.

As a result, this research will be extremely important for the public involved to be aware of the current situation such as students who depend on loans to finish their degrees at university as well as for bankers to assess its stability on the loans department under such negative macro conditions. The aim is to provide a comprehensive review of what has happened so far with student loans during the crisis, to assess to what extent they are susceptible to political uncertainty in Brazil and to provide a useful data for banks to take into account for their strategy in the future. In addition, it can be useful for any bank and government in a country that may present a similar situation in the future in terms of stability in politics.

**Aims:**

**Discover if banks have had changes in their student loan performance**

**Assess to which extent political instability and student loans are linked**

**Assess if student are having any issue regarding the obtaining and/or modification of their loans**

**Provide a contribution to the literature on the relationship between politics and loans**

**Organisation of dissertation:**

In chapter 1 is presented the introduction as well as the background, the aims, the sub research questions, the justification and the contribution of the topic to the existing literature.

In chapter 2 is showed the literature review with relevant themes related to the topic of this study and a summary for all in the end. It is explained why each topic is included and if there is inconclusive evidences from the sources.

In chapter 3 is explained the research methodology carried out in this research. All the options of every research methods are explained as well as the ones chosen. Every choice is justified why it is the most appropriate one to the topic instead of the others.

In chapter 4 is presented and illustrated reasonably the findings of this research for both the questionnaires and the interviews.

In chapter 5 is explained the review of this work, including the interpretation of the results, the research question answer, the implications of the findings and the contribution of this research to the area.

In chapter 6 is showed the conclusions from the analysis as well the summary of the findings and the explanation of how they clarified the general issues raised on chapter 1.

## **2. Literature Review**

According to Saunders (2007, p. 32), Literature review is a detailed overview of the relevant literature regarding the topic of a dissertation. Accordingly, the main related themes to the topic are discussed and critically evaluated below.

### **2.1 Literature Introduction**

The aim of this chapter is to analyse academic existing themes which are relevant and related to the topic of this proposal and to assess what is already known about the subject of this dissertation. In addition, a better comprehension of what is already written by researchers will be used to support the execution of the researched proposed. Firstly, it is going to be addressed banking system x economic and politics to assess the relevant material about the relation between the sustainability of a banking system and the political and economic situation of a country, to what extent they are linked. In this way, it can provide a some insights of previous similar examples to assess if the political instability in Brazil has affected its student loans. Secondly, banking loans x politics, to understand the effects of politics on loans and, therefore, provide another benchmark for the dissertation. Thirdly, the Brazilian banking system literature will be reviewed in order to obtain a greater understanding of how its structure is and how it works.

Fourthly, the literature about student loans will be assessed since the theme of this project is about the current situation of the ones in Brazil and it will provide a general knowledge. In sequence, the evolution of higher education funding in order to understand the changes that have been happening in the last decades in the world in order to provide a context on the evolution of the theme. Furthermore, the literature on the Brazilian government policy for student, the FIES, will be analysed in order to present a better comprehension of the subject since it is the student loan type that the Brazilian governments provides for its students so that it is extremely important to understand it for this project. At last, the student loan policy in the United States in order to provide another country loan system to compare with the Brazilian one. It was chosen mainly academic journals that are update as possible due to their quality and relevancy to the theme.

As a result, the analysis of the six themes above combined with the primary research will seek to answer the research question of this dissertation.

### **2.2 Banking system x economics and politics**

According to Hartmann, Straetmans and Vries (2005), the banking sector is an important aspect for the stability of any economy of a country. Moreover, bank credit is proven to be an essential factor for the financing of investment and economy growth in different types of economy. In addition, the

assessment of a banking system stability can be an essential interest of study for central banks and supervisory authorities in order to preserve financial and monetary stability (Hartmann, Straetmans and Vries, 2005). For instance, transparency and bank system risk issues demonstrated positive and negative results on the economy in the US and European countries over the last decade. Furthermore, Pradhan, Arvin and Nair (2017) demonstrated through the Granger causality test, a statistical hypotheses test, which showed that in the long-term the banking sector has been strongly linked to the economic growth in the G-20 countries. However, it is important to highlight that the results differed from country to country depending on its development stage (Pradhan, Arvin and Nair, 2017).

Furthermore, Stijn Claessens, Swati Ghosh, and Roxana Mihet (2013), analysed how macro-prudential policies can limit bank vulnerabilities. According to them, policies need to be properly chosen, calibrated and adjusted by country circumstances and the ones aimed at borrowers are moderately effective in reducing banking risks and, consequently, crisis. For instance, Kenourgios and Samitas (2007) associated the economic growth of Poland last decade to its finance sector by concluding that credit to the private sector was of the main aspects of the long-term growth.

Another evidence of the strong link between politics and banks was shown recently by Houston *et al.* (2014), demonstrating that the cost of bank loans is much lower for companies that have members of its boards of directors linked somehow with politicians. It was possible to conclude it after the analysis of a hand-collected data set of the political connection of 50 banks in the US from 2003 to 2008 (Houston et al, 2014). As a result, it shows that is not just the bank sector that influences the economy and politics but also the other way round.

On the other hand, both studies focus more on avoiding politic and economic problems rather than handling existing ones. In addition, there is no mention on the existing literature of student loans but just general credit rates. For both reasons, these studies are not the same as this research proposes including the Brazilian current situation and the student loans. However, it provides relevant insight of how prudential policies tailored for a country can be beneficial for its situation, which can be useful for this project since it primarily shows a certain relation between politics and banking system and, therefore, would help to answer the research question.

### **2.3 Banking loans x politics**

Paola Sapienza (2004) demonstrated how the behaviour of state-owned banks, when it comes to lending, is affected by the election results of the party affiliated with a certain bank. For instance, the interest increase or decrease depending on how strong is a political party in the area where a bank is borrowing. Furthermore, there is also a strong relation between the interest rates of state-owned and private banks on corporate loans for similar firms, showing that the government can interfere directly

according to its interests (Sapienza, 2004). In addition, according to Jimenez et al (2014), the amount of granting loans can change quickly according to interest rates modifications. For instance, the author showed that low capitalized banks can commit larger amount of loans with less requirements, demonstrating how monetary policy affects bank loans.

In addition, the administration of loans for students is considered to be one of the most complicated ones for banks since it is hard to ensure its payment (Hopper, 2015). Furthermore, Looney and Yannelis (2015) stated that the cause number one for a decrease on student loans would be loan defaults, which are mainly due to a weak educational background. Other issues such as income verification, lack of commitment by the borrower and moral hazard are some of the most popular problems in the US when it comes to student loans, which contrasts to the general idea that monetary policies are the main one for student loan decrease (Lochner and Naranjo, 2016).

Moreover, Micco, Panizza and Yanez (2007), assessed the relationship between bank ownership and bank performance, concluding that banks present different performances in developed countries and the developing ones. Accordingly, they react differently to government policies, especially when it comes to the provision of loans due to its interest rates (Micco, Panizza and Yanez, 2007)

In conclusion, it is a fact that bank loans can be affected directly by the government through its monetary policy. However, it is not the only aspect that can disturb loans, especially when it comes to the ones for students. As explained above, several causes have impacted student loans such as loan default and income verification for instance in the US.

## **2.4 Brazilian banking system**

According to Maia (1999), the banking restructuring in Brazil after the Plano Real, which was implemented in 1994, is the biggest change in the Brazilian banking system in the last century and it drove the industry after that. The new Brazilian banking structure presents public banks (both state and federal), the entrance of foreign competitors and the private banks. This modification was designed by the law number 4595, in 31 of December, called 'The Banking Reform Law'. Moreover, Barros and Wanke (2014) demonstrated how Brazilian banks have reacted differently to such big changes like the Plano Real, which resulted in the end of the currency hyperinflation that was presented in the country for more than a decade. Furthermore, most of the changes enhanced the bank service provision in the country that became much more efficient for the public. However, the supervision of the Central Bank of Brazil, which is linked to the Ministry of Finance, is still confusing with plenty of bureaucracy (Barros and Wanke, 2014).

In addition, according to the evaluation of Pereira and Saito (2015), which was done by using supervision data on credit rating and capital buffer of the Central Bank in Brazil, the author concluded that the central bank play a major role in the market but its effectiveness is not satisfactory due to complex rules, lack of transparency, inability to supervise and bureaucracy. Moreover, Tabak, Laiz and Daniel Cajueiro, (2013) stated that the banking structure nowadays in Brazil is well established with large, well-capitalized and liquid banks that are still reacting differently to the effects of monetary policy measures in this country. Furthermore, there are five main banks, which run approximately 70% of assets and loans based on the Central Bank data: Banco do Brasil, Itau, Santander, Caixa and Bradesco. These biggest banks have branches all over the country but the international operations are usually centralized its headquarters in Brasilia, Rio de Janeiro or Sao Paulo. In addition, the impact of monetary policy is different across state-owned, foreign and private domestic banks; which is proved by a number of evidences for that, including the bank balance sheets. Moreover, according to the Moody evaluation, the Brazilian banking system is regarded as to stable from negative (Tabak, Laiz and Cajueiro, 2013). However, the examples are more focused on general activities such as assets and debts; rather than student loans.

Bank	Total assets (BRL m)	Type of bank	Capital adequacy ratio (%)
BB	954,863,934	Public	14.7
Itau	857,421,771	Private	15.6
Bradesco	692,378,852	Private	14.9
BNDES	617,944,141	Public	20.9
Caixa Economica Federal	558,386,985	Public	12.8
Santander	423,959,293	Private	24.0
HSBC	148,400,364	Private	13.4
Votorantim	116,344,235	Private	13.0
Safra	91,337,520	Private	12.6
BTG Pactual	72,461,178	Private	16.8

**Figure 11 Biggest Brazilian banks. Source: Central Bank, 2015**

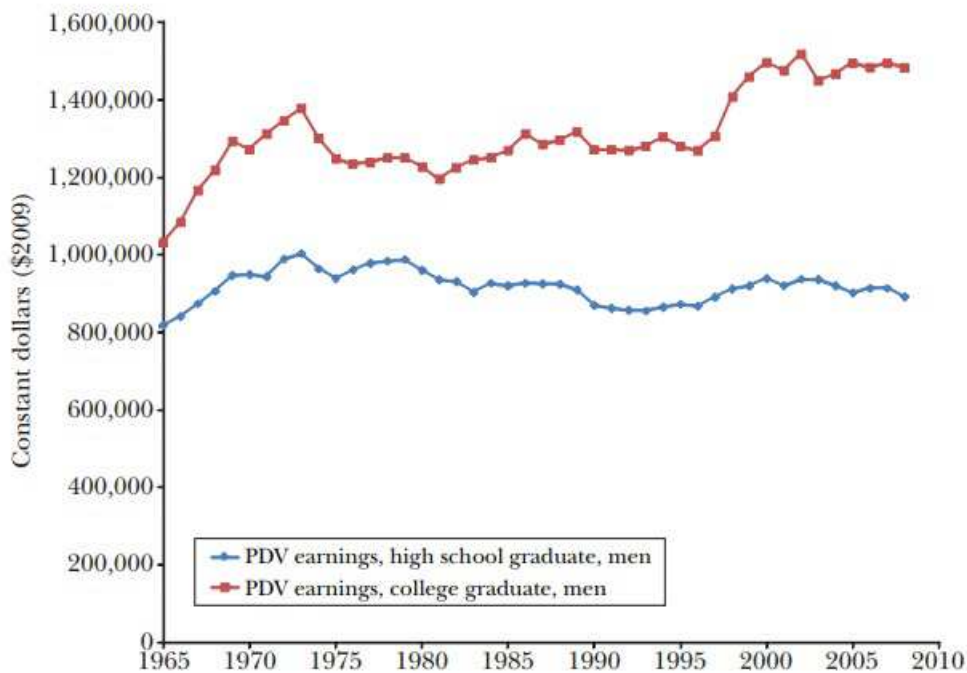
As a result, it is possible to conclude that despite the fact that the Brazilian banking structure is well established, the banks do not present a homogeneous reaction across the 25 different states in the country, to the monetary policies done by the Central bank, which is still inefficient when it comes to supervise the market. A lot of progress has been made since the Plano Real in 1994 but there are still some issues to be solved.

## 2.5 Student loans

According to Dowd and Cury (2006), student loans are a type of loan to support students in accessing and finishing their post-secondary course. It also includes other costs such as tuition fee, books and any other kind off supply for the study like the living costs. Currently, student loans are in operation approximately seventy countries in the world and many of them can vary due to their own regulation

and laws (Dowd and Cury, 2006). Moreover they usually take advantage of government subsidies, present lower interest rates and administrative costs and payment default risks. In addition, they can be obtained in banks and specialized agencies; and the main difference between student loans and scholarship is that the first one must be repaid (Shen and Zimmerman, 2009). According to Avery and Turner (2012), the total student loans amount has more than quadruplicated since 1990 due to the importance that a degree can have on the financial life of people. In addition, the authors suggested that enrolling in college is probably the best investment nowadays than some decades ago for young people. For instance, the graphic below illustrates how the average earnings of a person with a degree in his lifetime have become much higher than one that studied just until high school over the last five decades in the United States.

### Trends in the Present Discounted Value (PDV) of High School and College Earnings Net of Tuition



**Figure 12 Average earning earnings of college and high school graduate men in USA. Source: Avery and Turner 2012.**

On the other hand, negative results obtained during the degree can represent higher levels of borrowing and, consequently, an increase in the odds of student default. This is the biggest risk and concern for governments since its statistics has also increased over the last two decades (Avery and Turner, 2012). Moreover, students that complete their degrees but are just able to reach the bottom of wage distribution may present a salary that does not compensate the investment made. This is considered one of the most important concerns for students before obtaining a loan. Accordingly, Looney and Yannelis (2015) showed that the duration of the course is also related to the default since

students of 2-year institutions have presented a bigger rate of default in comparison to 4-year institutions. Moreover, the vast majority of loans student loans are in the second group, presenting approximately the double of 2-year institution students (Looney and Yannelis, 2015).

In contrast, Dowd and Coury (2006) presented a study saying that is not possible to link college attainment to levels of student loans, but to uncertainty of degree completion and indebtedness. However, the authors stated that further testing was necessary to attest it.

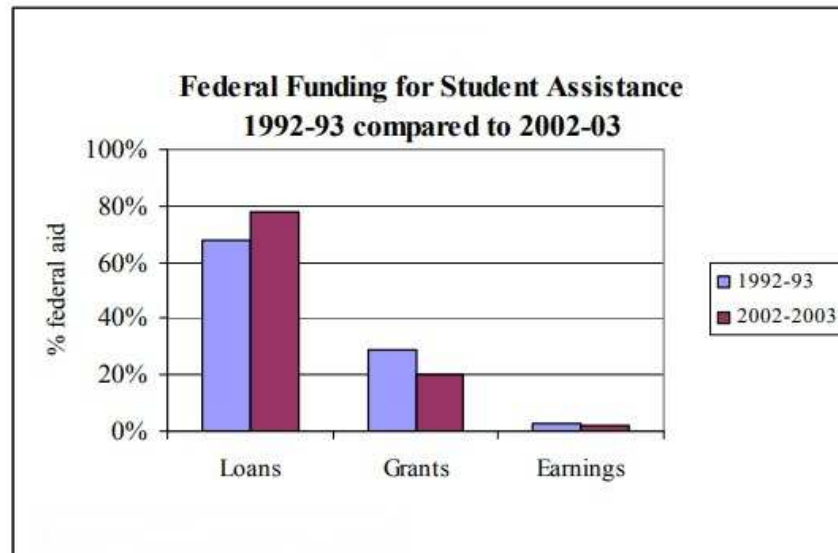
In addition, the repayment ratio across the dozens of countries that present student loans is roughly 40% or even less in average. This is considered a great percentage in comparison to average loans since they have a much higher percentage of repayment. However, the study of Shen and Zimmerman (2009) shows that this result can significantly vary from nation to nation. In the case of Brazil, the most popular student loan is the FIES, a loan granted by the government with the lowest interest rate of the market. In order to grant it, the student has to pass through a process to obtaining otherwise he can pursue other options with private banks which do not have the same great conditions of FIES. As a result, 73% of the total student lending in Brazil is under the FIES program, which represented a total amount of 32.2 billion of reais in 2016. Apart from FIES, just a few other options are offered by private banks such as the Pra Valer of Itau (Soares and Zanelatto, 2016).

In conclusion, the studies have presented a broad knowledge of what is known worldwide about student loans as well as its relevant numbers. For instance, the importance of a degree, the relation with attainment and levels of repayment. However, expect for the concern regarding student default, they do not link the theme with politics nor its vulnerability with times of crisis.

## **2.6 Evolution of higher education funding**

Bray (1986) stated that especially in the 1970s and the 1980s due to economic circumstances, a lot of governments around the world had to reassess the way of spending costs in education. In addition, student loans for higher education was a popular measure to adopt but it worked differently around the globe. However, they present some differences and one similarity as Paul Pierson (2001) stressed that they vary across regime types; they all prioritize cost containment as well.

Moreover, according to Johnstone and Marcucci (2007), there have been dramatic changes regarding the financing of higher education in the end of the 20<sup>th</sup> and in the beginning of the 21<sup>st</sup> centuries. Accordingly, the main reasons for the transformation are college costs increase, massification of tertiary education and the dependence of inadequate governmental revenue. In addition to the amount, there has been also a change on the type of financing: a shift from grants to loans (Simmons, 2008).



**Figure 13 Shift from grants to loans. Source: Congressional Research Service, 2007.**

For instance, the student loan policy launched in 1969 in Hong Kong is a case of success, starting with small grants to cover expenses in 1969 to loans to cover everything for students to attend universities in the United Kingdom.

On the other hand, according to a study made by Akers and Chingos (2014), through the collection of data of the past two decades of the Survey of Consumer Finances (SCF) in America, there is not likely to have a crisis on student loans despite the increase of both debt levels and tuition fees.

In conclusion, it is possible to see the evolution of student loan policies occurring in the world in the last decades as well as positive examples such as Hong Kong and the United States. In addition, the odd of not having a crisis in the USA despite price and debts increases. However, it is still not possible to link to the Brazilian case and its crisis.

## **2.5 Brazilian government policy for students - FIES**

According to Soares and Zanelatto (2016), the Financing Fund for Students (FIES) is a Brazilian government policy that is democratizing access to higher education in Brazil. It grants student loans for people who could not pass in public universities and cannot afford to study in a private college (Soares and Zanelatto, 2016). In order to obtain it, the student has to meet some requirements such as the maximum family revenue per month and a minimum score in high school (Aprile and Barone, 2009). Moreover, the program was created in 1999 offering an interest rate of 6.5% per year, which was changed in 2010 to 3.5% per year. Furthermore, it represents an average of R\$ 13 billion of student lending per year, the average of total loan is R\$ 220,000 (that is usually given to the student on monthly transactions) and the duration of payment is related to the triple of the course duration (if it is a 5-year degree, it can be paid in 15 years for example). However, under the FIES conditions, either the loan is just granted for a year or for the entire course. If it is annual, the students have to

apply for a yearly renew until the end of the course. The average monthly payment is around 1,200 reais per year with law being the most popular degree with 94,000 new contracts in 2016 (Chaves and Amaral, 2016).

In addition, Oliveira and Carnielli (2010) explained how FIES contributed to the expansion in higher education in Brazil according to the opinion of several people involved in institutions. It increased the odds for people from lower classes to stay in college and finish their degrees. As a result, opportunities are more equal between poor and rich students. In addition, a considerable part of the people involved in the study complaints that the program rules could be clearer, which causes a lot of inappropriate critics by the press due to a misunderstanding of the program.

Moreover, Carvalho (2016) highlighted that human diversity and different socio-cultural realities were the causes that lead the government to create the program. The aim was to provide social inclusion as well as intellectual training opportunity for those who suffered from the historical inequality in the country.

Accordingly, Vera Chaves and Nelson Amaral (2016) analysed the expansion on the educational policy occurred in Brazil for higher education between 2003 and 2014. Through a quantitative analyse it possible to conclude that it has contributed for financial gains by private institutions, increasing significantly its number of students enrolled reaching 74% of the country. On the other hand, institutions that provide research and extension were not equally helped financially. On the figure below it is possible to see the evolution of the number of institutions and enrolments in private and public universities over the last three Brazilian governments. The number of universities tripled and the vast majority of new institutions founded are private, which shows the importance of the acquisition of loan by students (Chaves and Amaral, 2016).

Year	Institutions			Enrolments				
	Total	Public	Private	Total	Public	%	Private	%
1995	894	210	684	1,759,703	700,540	39.8%	1,059,163	60.2%
2002	1,637	195	1,442	3,520,627	1,085,977	30.8%	2,434,650	69.2%
2003	1,859	207	1,652	3,936,933	1,176,174	29.9%	2,760,759	70.1%
2010	2,378	278	2,100	6,379,299	1,643,298	25.8%	4,736,001	74.2%
2014	2,416	298	2,070	7,828,013	1,961,002	25.1%	5,867,011	74.9%
%1995 - 2002 (FHC)	83.1	-7.1	110.8	100.0	55.0	-	129.8	-
%2003 - 2010 (LULA)	27.9	34.3	27.1	62.0	39.7	-	71.5	-
%2011 - 2014 (DILMA)	1.6	7.2	-1.4	22.7	19.3	-	23.9	-

**Figure 14 Increase of the number of institutions and enrolments of tertiary education in Brazil from 1995 to 2014. Source: MEC 2016.**

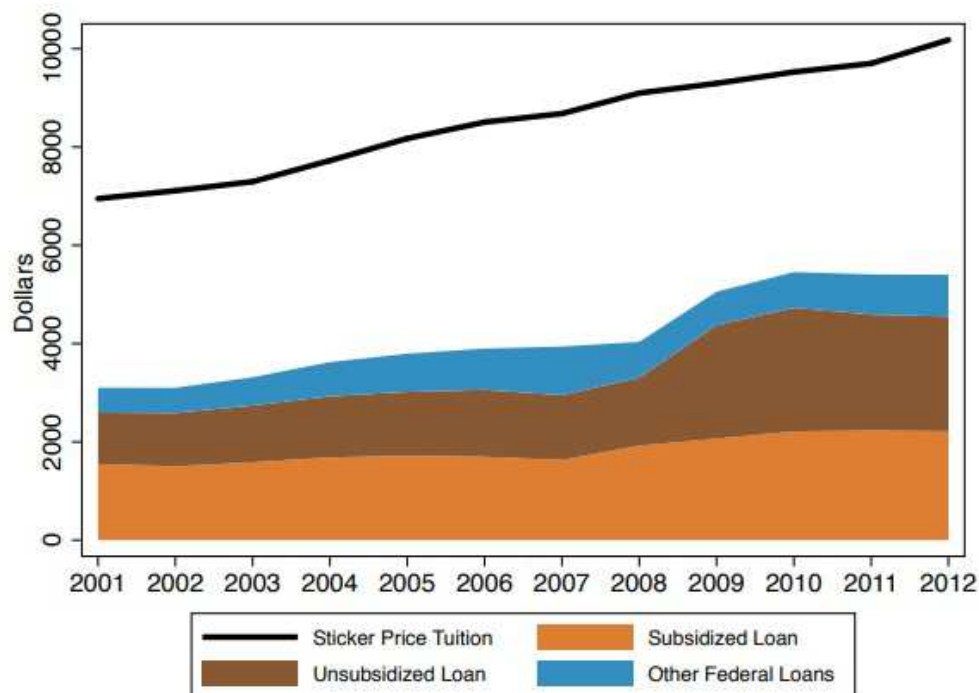
As a result, the studies have different focuses regarding the program itself in terms of its features, expansion or social importance. However, they not take into account the current background with the political issues as well as the policy immunity to them. On the other hand, they provide a great understanding of the program and insights that can be helpful on answering the research question while conducting the primary research.

## **2.8 Student loan policy in the US**

According to Avery and Turner (2012), student loans in the US can be obtained through two different forms: federal loans and private student loans. The first one is given by the federal government while the second one is by institutions like Stafford and Perkins. Although federal loans are cheaper than the private ones, they are still generating billions of profit for the government since their interest amounts are higher than their costs. In addition, there are two types of federal loans: subsidized or unsubsidized loans. The difference is that the interest of the first one is paid by the government and it is required from the student to demonstrate financial need while in the second option, the interest is paid by the student and there is no financial need requirement (Baum and Johnson, 2015).

Furthermore, student loans represent nowadays \$ 1.4 trillion spread by 43 million students that receive in average an amount of \$30,000 for the entire course. Moreover, student loans in the U.S. is regulated by the Higher Education Act of 1965 but since there was a change made in 2005 on bankruptcy laws, it is not common having losses with student loans since they are not allowed to be discharged in bankruptcy (Simkovic, 2013). In addition, student loans are vital for the U.S. higher education access since roughly 60% out of the 20 million people who attend college every year need some kind of financial assistance for their studies.

On the other hand, a research made by Lucca, Nadauld and Chen (2016) suggests that the current higher college costs are related to the increase of student loans in America. Accordingly, the graphic below (see figure 5) shows that the number of student loans and the price of tuition fees have been increasing simultaneously from 2001 to 2012.



**Figure 15 Increase of universities price tuition in comparison to federal loans in the US from 2001 to 2012. Source: Lucca, Nadauld and Chen 2016.**

In addition, the graphic also shows that the financial crisis of 2008 did not strongly impact the provision of student loans (Lucca, Nadauld and Chen, 2016).

Furthermore, a study made by Baum and Jhonson (2015), showed that national averages in the US are not strongly reliable since it hides huge differences across the country. Each state has its own rules, what causes a difference in the amount of loans provision.

As a result, the studies available on student loans in the United States of America cover relevant aspects such as its structure and its increase over the last few decades, which is a relevant data to compare with the Brazilian structure despite some huge differences, including the total due amount, the number of loans and the fact that in the US the loans is just for the entire course. In addition, it also stated that the financial crisis of 2008 did not impact the increase of student loans, which will serve as a reference of the relation between crisis and student loans for this dissertation.

## 2.9 Literature Conclusion

The literature review above shows the existing and relevant material about banking system x economics and politics, Brazilian banking system and banking loans x politics, student loans, Brazilian student loan policy, evolution of tertiary education loans and student loans in the US. It is a comprehensive material with different addresses and perspectives but there is still no focus showing

how these subjects can be related to the Brazilian situation right now. The political instability is unique in the history of the country, which makes this a very particular situation. Moreover, past studies are mainly focused in a general perspective, with examples all over the world when it comes to the relation of banking system and loans with politics and economics. What is missing from past researches is a direct association to the Brazilian situation at the moment. Furthermore, the studies regarding politics are more related to a response to the economic situation worldwide with raise in prices and tuition fees being the only modification identified so far.

In addition, the studies on the Brazilian banking structure have shown that banks respond differently to the Central Bank policies but there is still no study taking into consideration their reaction on the student loans to the crisis.

As a result, the research proposed is going to add the students perspective on such updated topic that there is not much written about since the investigation is not finished yet so that its effects on the banking system. In addition, it will serve as an example of how political instability as student loans are linked.

### 3. Methodology

#### 3.1 Methodology Introduction

In this chapter it will be explained with details how is going to be carried out the methodology of the primary research for the research proposed. According to Kothari (2004), research mean a search for knowledge and it can be defined as a scientific and systematic search for pertinent information on a specific topic. Accordingly, Cameron and Price (2009) defined business research method is “a systematic attempt at collecting and interpreting data and evidence in order to inform thinking, decisions and actions in relation to an issue of interest to an organisation and its stakeholders”.

In addition, it will be followed the research onion (see figure below), which describes the layers of the research process and it demonstrates how is going to be the research design including its philosophy, approach and strategy; the sampling, data collection, data analysis, ethics issues that may arise as well as the limitations of the methodology. It starts from the macro to the micro with the outer layers focus on thinking about research philosophies and approaches, the central ones reflect the need of research strategies and choices adoption; while in the centre there are the data collection and analysis as the main concern. It illustrates progressively all the stages that will be covered in order to develop the research strategy (Saunders, 2007).

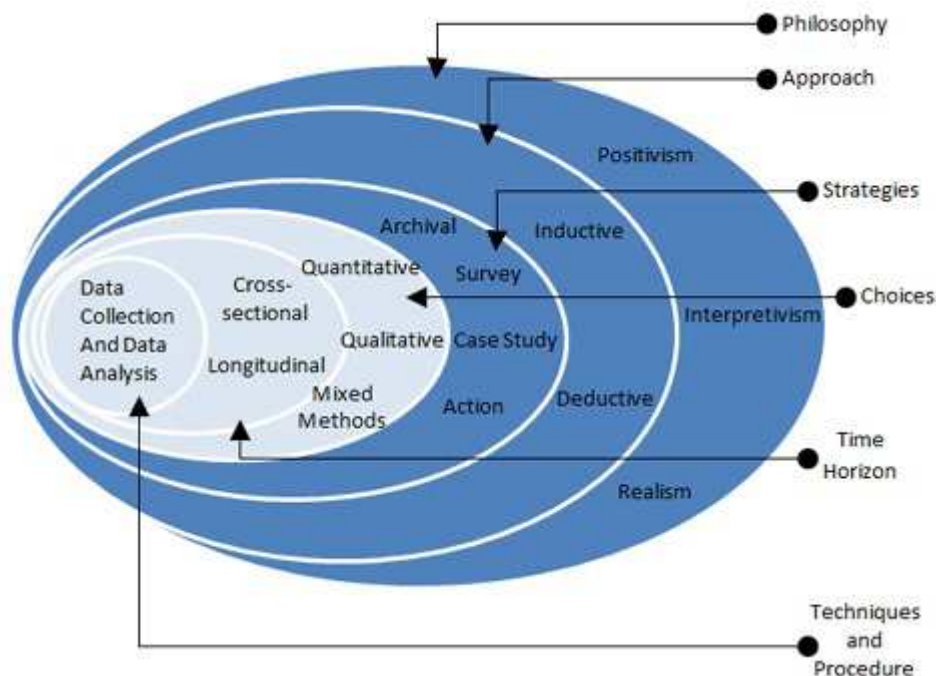


Figure 16 Research Onion. Source: Sanders, 2007.

## **3.2 Research Design**

### **3.2.1 Research Philosophy**

According to Saunders, Lewis and Thornhill (2007, p. 104), a research philosophy is an “overall term that relates to the development of knowledge and the nature of that knowledge in relation to research”. In addition, it also considers the ways in which data should be collected, analysed and used. Furthermore, it contains some of the personal assumption of this author and how he views the world and there is no philosophy better than another, just the most suitable for each case. Moreover, the main strands of research philosophy are positivism, interpretivism and realism.

Firstly, Positivism is the research philosophy that adopts highly structured methods to facilitate the replication, which results in law-like generalisations. It derives from natural science and it presumes that the social world exists objectively and externally. In addition, it focuses on facts and it considers knowledge valid only if it is based on experience and observations of the external reality. Moreover, it uses quantitative methods such as surveys, experiments and statistical analysis. As a result, it usually leads to predictable results (Saunders, 2007).

Secondly, Interpretivism is the research philosophy that focuses on the comprehension of different human behaviours in their roles as social actors. In another words, it is the opposite of positivism since knowledge is constantly reconstructed through different experiences, what leads to many different possibilities of interpretations. Moreover, it considers different realities based on the different points of view of the people involved so that the knowledge must be interpreted in the context of the researcher academic experience. Furthermore, it is inductive and theory building. As a result, it focuses on understanding the interpretations and meanings of social actors in order to understand their perspective, what makes this philosophy a very contextual one (Hatch and Cunliffe, 2006).

Thirdly, Realism is a research philosophy that stresses that objects exist independently of our knowledge of their existence. It is originated from critiques of positivism and interpretivism, which are considered too deterministic and too contextual respectively. Accordingly, it claims that real structure exists and it is independent of human consciousness and that knowledge is socially created. Although it is a different philosophy, it presents some similarities with the other two. For instance, realism is in accordance to interpretivist positions in the sense that it considers natural and social science are different, and that social reality is pre-interpreted. On the other hand, it is in line with positivist thinking in the sense that it also follows the idea that science has to be empirically-based, rational and objective (Cameron and Price, 2009).

As a result, the philosophy adopted in this study is going to be a **mix of interpretivism and positivism**. The first one because it recognises that business people are different and interpret business situations differently; is very contextual so that it will take into consideration the Brazilian situation at the moment, which is very particular and there is no previous similar example in the world as showed in the literature review. In addition it is perfectly suitable for the topic because different banks could have had a different reaction to the instability, which will be examined on the interviews. Moreover, the positivism will be utilized for the quantitative data collected and it suits the topic because it will be concerned with the facts on the student questionnaires results that will confirm whether their student loans were affected by the crisis or not. Furthermore, Realism was not chosen since it is a philosophy that requires an understanding of the deeper structures and relations which are not easily observable, which would be extremely time consuming for this study and, therefore, inappropriate for this dissertation (Saunders, Lewis and Thornhill, 2007).

### **3.2.2 Research Approach**

Following the research onion, the second step is identifying the most suitable research approach. In order to do so, two different approaches are explained below: the deductive and the inductive approach.

Firstly, a deductive approach is the one that involves the testing of a theoretical proposition by adopting a research strategy in order to test it. Accordingly, there are five steps in a deductive research, which are: defining research questions from the existing theory, operationalizing them, looking for its answers, analysing if the results are in accordance to the theory or if it needs a modification; and confirming the initial theory or modifying it. It aims to test a theory, it is usually associated with the positivist philosophy and the conclusion follows the premises (Saunders, Lewis and Thornhill, 2007).

Secondly, an inductive approach is the one that regards the development of a theory as a result of analysing data already collected. It aims to generate a new theory based on the data collected and observations done by the researcher. It starts with research questions, it is usually associated to qualitative data and it is concerned with the context with the events. In contrast to the deductive approach, the conclusion not always follow the premises and it is not necessarily true (Cameron and Price, 2009).

As a result, the approach chosen for this research is going to be **inductive** since there is no specific theory to assess how the new political instability has affected the student loans in Brazil. In addition, it suits the topic since it started with a research question and the result will be generated from the analysis of the data collected. Moreover, only after the completion of the analysis of the data is that the research question output will be produced. Furthermore, due to the nature of the approach, a

better understanding of the Brazilian situation is necessary in the beginning of the research in order to facilitate it since the study will be carried out by an inexperienced researcher and, therefore, leading to confusion during the research (Saunders, Lewis and Thornhill, 2007).

### **3.2.3 Research Strategy**

The third step of the research onion is the research strategy, which is how the researcher intends to execute the research. In addition, some strategies are better used with a quantitative approach while others with a qualitative approach; and the aim of choosing the most appropriated strategy is to enable the research to answer the research question and achieve the research objectives. In addition, there are several types including experiment, survey, case study, grounded theory and ethnography, which are explained below (Hatch and Cunliffe, 2006).

Firstly, the experiment strategy, which is usually associated to the quantitative approach and it is the classical type of research originated from the natural sciences. It studies casual links between one variable, the independent one, and the change on another variable, the dependent one. Moreover, it emphasizes the measurement precision so that the variables must be measured. Furthermore, it is necessary a lot of details in order to describe the experiment. For instance, it can be useful for marketing purposes when testing if an advertisement, the independent variable, grows a specific product sale, the dependent variable (Cameron and Price, 2009).

Secondly, the survey strategy, which can be associated with both of the approaches, the quantitative and the qualitative one; and it involves the structured collection of data from a considerable population. In addition, it is useful for measurement processes that involve questioning people about something. Accordingly, it can be used questionnaires for quantitative approach and interviews for qualitative approaches. One possible limitation is that the data collected might not be as detailed as other types of research strategy. On the other hand, it is the most popular strategy when it comes to gathering data from a large number of people. For instance, it is suitable if the intention of the researcher is to discover what is the percentage of people who has a particular opinion about an issue (Saunders, 2007).

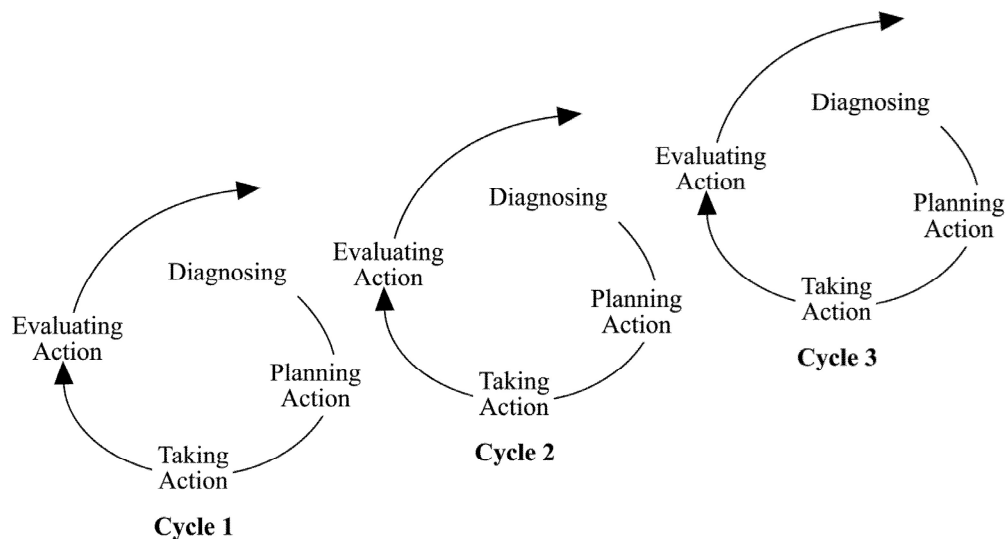
Thirdly, the case study strategy, which also can be associated with both methods, the quantitative and qualitative approach. However, differently from the survey strategy the focus more on straight forward question such as 'who', 'what' or 'where'; the case study strategy is focused on the 'why'. Accordingly, it is focused on the explanation of events, an in-depth exploration and investigation of a particular phenomenon in a particular context. However, and issue that some people think about this strategy is that one case or a small number of them might not be enough and precise for the findings, as well as generalising from an individual activity can represent a limitation for the research. Moreover, it is appropriate for obtaining a detailed understanding of the context involving the

research. For instance, it can be a positive strategy when it comes to understanding why managers make a certain type of decision under specific circumstances (Saunders, 2007).

Fourthly, the grounded theory strategy, which is usually associated with the qualitative approach. It is also usually linked with the inductive approach since it is a theory development that is generated by observations and discussions on the data collected. The process usually starts with observations, followed by analysis of evidences and leading to an emergent theory that is created. However, an issue of this strategy for new researchers is that it requires strong thinking, analysing and reflections skills (Saunders, 2007).

Fifthly, the ethnography strategy, which is usually associated with qualitative approach. It is concerned with the comprehension or interpretation of an issue from the respondent perspective. The biggest issue of this strategy is that it demands a huge amount of time in order to make it possible for the researcher to immerse himself in the context of the participant (Hatch and Cunliffe, 2006).

Sixthly, the action research strategy, which is concerned with the management and involvement between researchers and practitioners. In contrast with other strategies such as the case study, the role of the researcher in this one is much more active by making experiments and checking the results in an organization or a project. It follows the three cycles (see figure 9 below), which continue until a satisfactory outcome is reached. On the other hand, its disadvantage is that it is necessary an experienced research to run it well by it is necessary to take responsibilities for the interventions (Saunders, 2007).



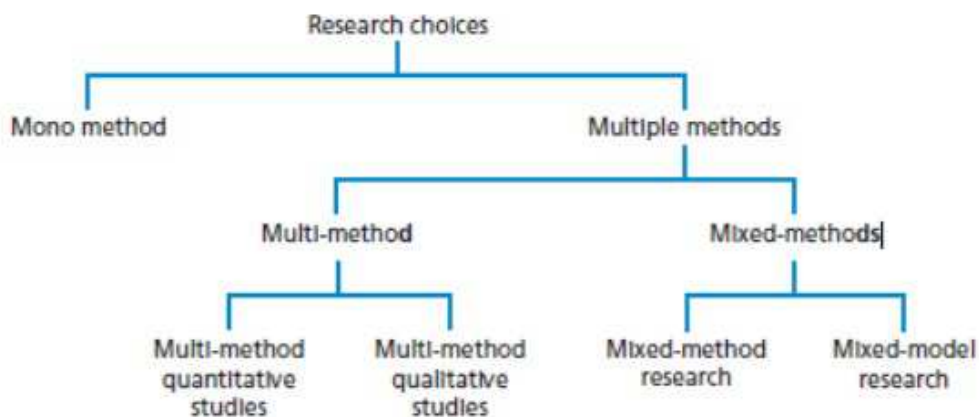
**Figure 17 Action Research process. Source: Saunders, 2007.**

In conclusion, the type of strategy adopted for this research out of the options explained above will be the **survey approach**, with a mix of quantitative and qualitative research to be conducted. The reason for it is that the first one, qualitative research, aims to get deep information through

interviews to understand bankers behaviour towards student loans, if it has changed, if it was influenced by the political and economic moment of the country at the moment, why and how of the decision making and to gain an understanding of reasons and opinions from employees. The second one, the quantitative research will be carried out through questionnaires to examine the phenomenon through numerical observations and statistical analysis in order to know a reasonable proportion of students who have been affected (Saunders, 2016). The aim is to quantify the problem and generate numerical data that can be transformed in statistic to analyse through the number of students whose loans were affected or not. Moreover, it accelerates the data collection, it has low cost and it is extremely objective. As a result, it will be given questionnaires to the respondents and it will be conducted individual interviews with a few people that work within the industry as explained further. Furthermore, the survey approach is more appropriate for this project than the other ones, as mentioned in each definition above, due to several disadvantages with longer time and need of research experience being the main ones.

### 3.3 Research Choices

The research choice is about the type of method that is going to be chosen for the collection of data. It includes the mono method, the mixed method and the multi method. The first one means that just one method of research approach is going to be used in the study whereas the second one means that the researcher is going to use more than just one data collection method. The third, and final one, means that it is going to be adopted a wider (Cameron and Price, 2009).



**Figure 18 Research choices. Source: Saunders, 2007.**

In addition, what differs the mixed method from the multi method is that one single dataset is going to be created in the first one while the second one produces a different data for each method and then analysed through different techniques. The methods are related to the quantitative and qualitative methods (Saunders, 2007).

As a result, the research choice of this dissertation is going to be a **mixed-method** choice. It is more suitable for this study since a combination of different approaches can overcome the disadvantages of one single method that may not cover all the necessary points (Saunders, 2007). The quantitative will be for the questionnaires and qualitative for the interviews.

### **3.4 Time horizon**

Firstly, the cross-sectional, which aims to take a part of a situation in a certain period of time. Moreover, it is recommended for masters since is not so time demanding. Secondly, the longitudinal, which demands a huge amount of time in order to perform it. In addition, it can have duration of year and it is useful for researches such as staged experiments or multiple interventions (Saunders, 2007).

As a result, the time horizon chosen is the cross-sectional since it is the most appropriate for short-term researches due to the short duration of this study.

### **3.5 Techniques and procedures**

#### **3.5.1 Data Collection**

In order to run the proposed data collection, it will be conducted a concurrent mixed methods research. In this way, **qualitative and quantitative research** will be done in a single phase of data collection and a single phase of data analysis. As a result, both sets of results can be collected at the same time, which would accelerate the process since time is also an issue in this research. In addition, it contrasts with the other methods that would require more than one phase of collection like the sequential method that makes an obligation to collect qualitative and quantitative data in two different phases, one after the other in a logical sequence. Moreover, the data will be collected in two different ways: semi-structured interviews and questionnaires.

The first one will be with bank employees, a face-to-face interview in order to know their opinion about how the bank has been affected during this instability period when it comes to loans. In addition, it was chosen individual semi-structured interviews because it is possible to engage in a formal interview, they have a framework of themes that need to be covered and they can allow new ideas to come while the interviewee speaks and think that is appropriate to add. In addition, the researcher will not have more than one chance to do the interview so this structure is appropriate also because it allows including new information if necessary (Saunders, 2016). It will be implemented in this way, face to face, because it is important to establish personal contact within this context. The reasons for that is the more likelihood from employees to agree with an interview rather than answering a questionnaire, especially when the topic is relevant to their work, the opportunity to reflect on events without the need of writing it down and the personal assurance for the interviews

about the way that the data will be used and to control the responses since a manager could easily pass to question to somebody else in the department to answer (Saunders, 2016). As a result, they will be contacted by e-mail firstly and then schedule a physical visit in their branch to start the interview.

The second one will be questionnaires with students who have current loans at UNIFACS, the biggest private university, and UFBA, the biggest public university, in order to get their perspective from the crisis. It was chosen to delivery face-to-face the questionnaires for the students in order to avoid their reluctance on answering it. The reason for that is because they can be reluctant to complete the questionnaire if it is delivered in another way rather than face to face because it may be not safe to provide confident information for a person that they never met, they may not trust the way that the information will be used, the time that they would spend on completing the questionnaire and if they do not understand properly what is being asked (Saunders, 2016).

### **3.5.2 Data Analysis**

In order to transform the raw data into proper information to be used, the data analysis will be conducted for the quantitative and the qualitative data. Both analyses will follow 4 steps: preparing data, reviewing, analysing and representing it.

For the quantitative data, it will be coded following the answer options of the questionnaire, recorded in a spread sheet on Excel, use **statistical tests** to check the hypotheses and then represent the results in tables to provide a better accuracy. For the qualitative data, it will be organised and transcribed to text, develop **qualitative codes**, group data and look for themes that are related and present the findings in a text (Saunders, 2016).

After that, the next step will be the integration of both data in order to maximise their strengths and minimise their weaknesses. The method for data integration in this research will be Embedding the data. In this way, the results on the primary data of the quantitative data of the student answers about their loans will be supplemented by the qualitative responses from the interview with bankers to elucidate what has happened to the student loans, whether they were affected or not by the political instability.

### **3.3 Sampling - Selecting Respondents**

According to Saunders (2007), sample is a "sub-group of all group members or the whole population. The sub-group need not necessarily be a subset of people or employees: it can, for example, be a subset of organisations, places or some of the tracks listed for a music CD". The population of interest for the research proposed are bankers responsible for granting student loans and students who receive it. Moreover, the students selected are going to be the ones that already had a loan

before 2015 so that they can assess how it has been impacted after the political crisis has started. In addition, based on the judgement of the researcher, a sample frame is not possible for this research due to the nature of the survey that would have to include all the roughly 720,000 students who have loans in the country as well as contact all the bankers that provide it (MEC, 2017). In this way, the sampling technique for this proposal will be the non-probability one. For this reason, the sample size of the research will be **2 for the semi-structured interviews and 60 for the questionnaire**, which is according to the standard of minimum non-probability sample size of the guidance table of Saunders (Saunders, 2012). It is important to highlight that an employee from Caixa, another important Brazilian bank, was contacted to be interviewed so that it would be an odd number for the interviews.

Accordingly, it will be selected for the interview one employee of Itau, the most important private bank in Brazil, who work in the loans department. In addition, one employee of Banco do Brasil, the biggest public bank in Brazil, will participate in interviews as well. Moreover, 60 students who already had a loan before 2015 will be asked to participate in a questionnaire, it is a reasonable cross section to obtain their perspectives. The aim is to check if there is any difference of the political instability perception for private and public banks.

Furthermore, the employees will be firstly contacted firstly through their e-mail, obtained through telephone contact with the bank branch, to inform about the research and to send to them the information sheet consent form (see Appendix 2). After that, the interview face-to-face will be schedule at their earliest convenience because it is important to establish personal contact in this context. Accordingly, the students will be contacted directly in their universities with the information sheet consent form explaining and asking for their participation in the questionnaire that could be answered straight forward.

### **3.6 Research Ethics**

The ethical issues that are expected to arise during the dissertation are confidentiality, honesty and consent of participants. The first one involves the data of the participants but there will be no names released from the interviews and questionnaires, just the name of the bank/university where the person works/studies. The reason for that is to avoid any problem that may happen for them due to the content they will release for the research, especially for the bankers since these institutions are stricter with any kind of data release. Second, the data will be presented as it is, no parts will be ignored and it will follow data protection rules. Third, it will be given the information sheet before every interview/questionnaire explaining everything about the research and about what would have to do as well as asking if they are willing to participate, they will be volunteers and know exactly what they are volunteering for (see Appendix 2).

### 3.7 Limitations of Methodology

There are a few limitations in this proposal that will be attempted to be overcome. Firstly, the lack of secondary information for being a very update topic, which can complicate the secondary research. Secondly, some people may present very different and contradictory opinion about the theme, which can make it hard to come to a conclusion especially in the qualitative data. Thirdly, difficulties in meeting employees of the bank and, therefore, gaining information from them. It is not likely to happen but if does, different branches it will be contacted as well as some people that this author personally knows who work in the industry.

Furthermore, being an outsider is may be hard to check the data revealed, time constraints of the semester require less time than may be the ideal one for this kind of research. Moreover, an inductive approach is difficult to be carried out by new researches since it can lead to a number of different results, which can difficult a conclusion.

### 3.8 Methodology Conclusion

Based on the research onion (Saunders, 2007), the figure below illustrates a summary of all the choices of the researcher for this dissertation regarding the research design.

Research Philosophy	Research Approach	Research Strategy	Research Choice	Time Horizon	Techniques
Interpretivism + positivism	Inductive	Survey	Mixed-methods	Cross-sectional	Data Collection Data Analysis

**Figure 19 Research structure of this project. Source: own, 2018.**

## **4. Data Findings**

In this chapter it will be described the findings of the primary research that was carried out in this dissertation. According to Blumberg, Cooper and Schindler (2011), data analysis is the reducing of the accumulated data gathered from the primary research to a manageable size in order to develop summaries and results.

The researcher was able to do one interview with three different bankers in order to obtain more information regarding the effects of the political instability. All the three interviews were done face to face, which were allowed to be recorded. However, the material should be handled with high confidentiality.

### **4.1 Data from Interviews**

In this chapter it will be described the findings of the primary research that was carried out in this dissertation. As explained before, three interviews were conducted for the qualitative data.

The first one was with a credit analyst at Itau Unibanco in the headquarters of the city Salvador, the biggest and most important private company in Brazil. It is also the tenth bank in the world in terms of market value bank in the world biggest financial conglomerate in the Southern Hemisphere.

The second one was with an analyst based on the credit department in the headquarters in Salvador of Banco do Brasil, the biggest and most important public bank in Brazil. It is the oldest active bank in Brazil, it is controlled by the Brazilian government with its CEO being chosen by the Brazilian president every 4 years. It was attempted to also invite an employee of Caixa to be a respondent in this research but just negative responses were received.

#### **Quantity**

The questions were all the same for all the respondents in order to try to standardize the answers for the qualitative data. It were addressed the performance of student loans in the last three years, how they have been impacted by political scandals, if their quantity have been diminished, if the budget for student loans have suffered any change and if there was any modification on existing student loans. There were 60 questionnaires sent according to the sample but just 51 answers. The interviews were planned to be conducted with 3 employees but just two were successful to be contacted. The full transcription of the interviews is available on the appendix of this dissertation.

### **How student loans have performed since 2015?**

For this question, the first interviewee stated that the performance of FIES decreased due to a more restricted candidate evaluation and that this did not represent an increase on their other products such as Pra Valer. He believes that most of the students are either being reprovved or not taking the loans in those conditions.

In addition, the interviewee number 2 stated that the only student loan that Banco do Brasil runs is FIES, which had a slight decrease in comparison to the peak of the program in 2014. However, he highlighted that the credit portfolio of the bank did not present a uniform performance. For example, loans for corporate bodies decreased 9.3% whereas individual loans increased 2.7% in 2017.

### **Have student loans been diminished in terms of quantity since 2015?**

According to interviewee 1, student loans have decreased 16% in 2017 in comparison to 2016, which is similar to the average of 12% in the period since 2015. For instance, he explained that the government offered 310,000 loans through FIES last year but 2 out of every 10 loans offered were not taken, even though the total quantity offered was just half of loans offered in 2014. Accordingly, other credit loans are reducing as well at Itau such as the individual loans with 12% less and loans to micro, small and medium companies with 14% less. In contrast, credit provision for vehicle purchase increased last year with a small expansion of 3% but which is a sign of recovery of Brazilian borrowers.

In addition, Interviewee 2 stated the quantity of student loans also decreased at Banco do Brasil. He also reinforced that it is MEC responsibility for approval of the credit provision for students so that they can work with Banco do Brasil, the financial agent, so the bank cannot control closely with the expansion or reduction of the credit. He also linked the quantity decrease with the economic moment of the country.

### **Has the student loan budget suffered any change since 2015?**

Interview 1 highlighted firstly that all the budgets suffer annual changes according to the bank necessities and objectives so that the student loan budget had as well. He enforced the financial liquidity of the bank with a credit portfolio of R\$ 564 billion in 2017 and a net margin profit of 10.7% of the bank in 2017 but he stated that since the capital resource for private student loans come from saving accounts, which had a reduction since people is making higher withdrawals due to times of crisis, the credit disposal also diminished. The current strategy of Itau is to adequate with cost

reductions and a higher doubtful debt control. He also pointed out that the default loan percentage of Itau, which is measured by 3 months of outstanding payments, is lower than the Brazilian average.

Interviewee 2 explained that the student loans also decreased at Banco do Brasil but that the target of the bank last year was not expand but focus on quality on borrowers. Default loans are high and the bank is gaining more profit through currency fees and funding administration, which represent a great reaction to the market downturns. They had an increase of 11%, or R\$ 6.9 billion on currency fees and a raise of 26%, or R\$ 5.9 billion, on funding administration.

### **Has the approval percentage of payment extension requirements changed since 2015?**

According to interviewee 1, the payment extension increased roughly 7% in the period and he linked it to the level of debt of Brazilian people. For instance, he explained the housing policy through the Minha Casa Minha Vida program, which makes the buyers to pay the house for 25 years and gave it as an example of how high the Brazilian people became in the last decade. The interviewee also linked this situation with the fact that the unemployment rate in Brazil is still high due to the economic and politic crisis.

Interviewee 2 also stated that more people is struggling even with the payment of the trimestral fee of R\$ 150 for the FIES. He also highlighted that this is a very low fee that more people cannot pay during this time of crisis. He did not mention the precise decrease for the period but stated that better quality loan is still a priority so that the bank cannot provide payment extension for all the requests.

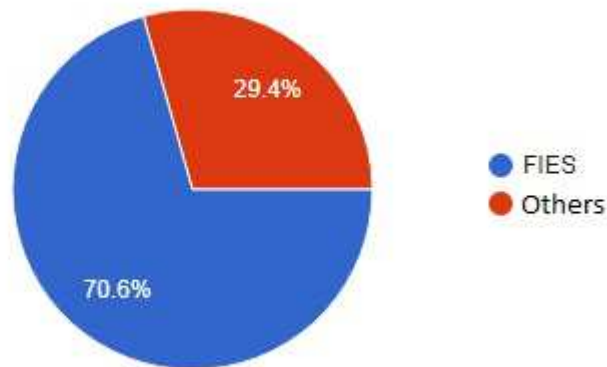
### **How student loans have been impacted by the political instability?**

Interviewee 1 believes that student loans in general have been impacted not directly, but indirectly by the political instability. He explained that although there were some small changes in the structure of the FIES, it was the economic crisis caused by the political instability which affected student loans the most. He highlighted that more students are matching the requirements but decide to not take the loan either due to uncertainty related to the maintenance of their income under the economic crisis condition or due to uncertainty related to the need of having a bachelor degree nowadays.

Interviewee 2 agrees that student loans have been affected indirectly by the political instability but he explained that more people are failing to be approved or renew their contract for FIES due to their income reduction. This caused more payment extension requests and a decrease on the numbers of student loans. He also mentioned as an example that the renew of contracts are presenting some delays due to a detain of MEC workload, which is postponing the contract signatures.

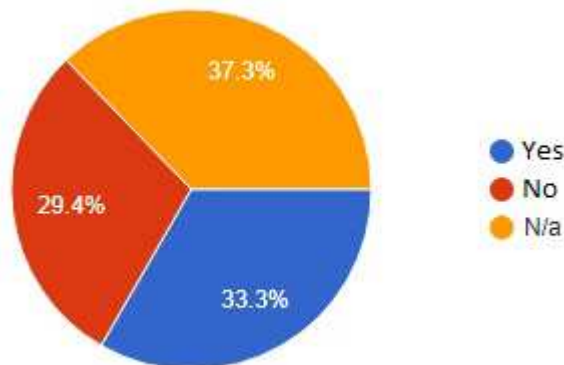
## 4.2 Data from Questionnaires

In this chapter it will be described the findings of the quantitative primary research that was carried out in this dissertation. A questionnaire was sent to 60 students who have granted loans before 2015 and that could experience if there was any change when the political instability started. 51 respondents answered the questionnaire.



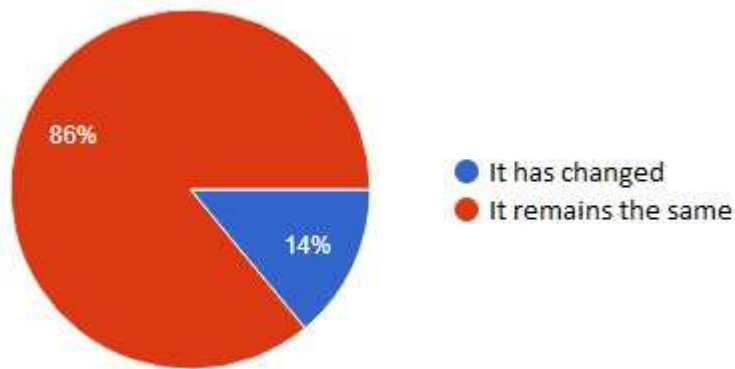
**Figure 20 Student loans per type in Brazil. Source: own, 2018.**

In the figure above, it is possible to see that the vast majority of respondents were from the FIES, which is according to the findings of the literature view research. The percentage in the literature review and the one found in the research are similar.



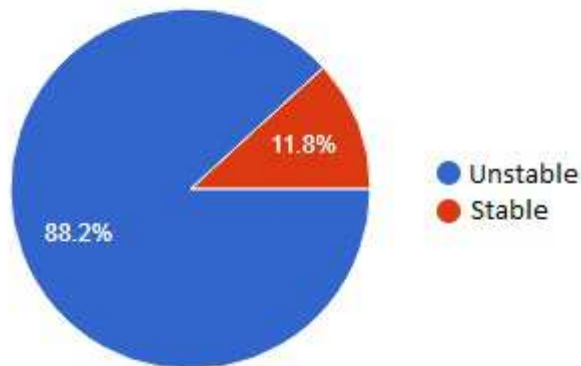
**Figure 21 Students who managed to renew their visas. Source: own, 2018.**

On the figure 14 is demonstrated the percentage of people who managed to renew their annual contracts for their student loans. The 37.3%, or 19 people out of 51, represents the people who have granted loans for the entire course. In the 32 remainder, 17 succeeded to renew their loans while 15 could not do it, which represent a success of 53% of the renewing attempts.



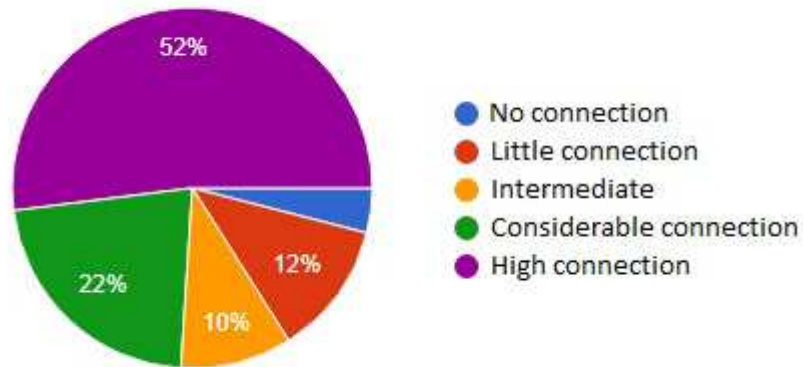
**Figure 22 Percentage of interest rate change. Source: own, 2018.**

Figure 15 demonstrates the percentage of people whose loan stayed whether the same or not. The vast majority had the same interest rate kept. This also illustrates the high amount of FIES contracts since they cannot have the interest rate of 3.5% modified. Out of the 15 who does not have a FIES according to figure 13 presented before, 7 had the interest rate modified in their contract renew, which represents roughly half of the respondents who have other types of loans.



**Figure 23 Opinion of students on the political moment. Source: own, 2018.**

The figure 16 above shows that according to the student opinion, the country is passing through an unstable moment. The percentage is according to the previous information that the majority of the population sorts as unstable the current moment for the politics in the country according to the content on the literature review.



**Figure 24 Connection between politics and loan changes according to students. Source: own, 2018.**

Accordingly, figures 17 show that 52% believe that if there was any change in their loans this would have a high connection with the current political instability whereas 22% regard it a considerable connection showing that 74% of the respondents whose loans suffered a change blame the instability for it. In contrast, just 4% stated that there is no connection between the changes and the politic moment whereas just 10% regards that there is just a little connection. Both rates represent just 14%, or 7 people, of the total amount of respondents.

## 5. Discussion

The aim of this chapter is reviewing and interpreting the results from the findings of the last chapter and, therefore, linking to the aims and answering the research question. It is also discussed the implication of the findings.

### **Discover if banks have had changes in their student loan performance since 2015**

According to the interviews with analysts from Itau and Banco do Brasil, it is possible to identify that some changes have occurred since 2015. A number of aspects were addressed during the interview in order to support this statement: payment extensions, budget, default loans, quantity of loans, credit portfolio, comparison between student loans and other types of loans, comparison with the number before 2015 etc.

Firstly, the default loans increased considerably just after 2014 so that banks had to change their strategy in order to not focus on expansion anymore like they were doing just before 2015 but on a better debtor quality. As a consequence, this also changed the rates of failure on the FIES process and the deny on payment extension requirements, which both rates have increased. On the other hand, the banks had a decrease on default rates on 2017 following also their cost reduction policy. For instance, Itau just had a recovery of its default loan of 3.9% in 2017 when the Brazilian average for the same period was 5.6%. As a result, it helped to increase the net margin profit of the bank in 10.7% in 2017 in comparison to 2016, which shows that the bank is giving signs of recovery, even though the economy is still struggling so does the student loan numbers.

Secondly, an increase on the deny of loans for the public also decreased the quantity of loans offered. Although FIES had already decreased the amount of loans offer, there were still 2 out of 10 loans without being taken by students of the 310,000 loans offered for the program in 2017. It represents 20%, a percentage very different from the peak on 2014, when students were competing and waiting on a second list for a higher quantity offered that time. In addition, more people is struggling to pay the trimestral fee of 150 for FIES, which is a very low value but which people is not managing to pay because of personal financial issues.

Thirdly, the delay that MEC now is having to pass resources for Banco do Brasil is another evidence that the government is struggling financially and student loans are being affected as consequence. Before January 2015, that was not common to happen according to the interviewee 2 and now it is taking roughly 9 days more to conclude the transaction.

Fourthly, both banks had to deal with an constant increase of payment extension requirements. Not just the ones of the monthly R\$ 150 of FIES at Banco do Brasil mentioned before but also for the

other types of student loans at Itau, which increased 7% in 2017 in comparison to 2016.

On the other hand, presenting a change on the budget as addressed on the interview it is not a very reliable aspect to state that this would mean a change in the performance of student lending due to the political instability since both interviewees enforced that annual changes on budget are normal and there was not a homogeneous modification. For instance, credit for vehicles had a small increase again in 2017, showing that some loans were not affected so much. Furthermore, both interviewees highlighted that the credit portfolio of the banks are still strong with Itau presenting R\$ 564 billion for 2017 and Banco do Brasil presenting R\$ 684.2 billion for 2017.

As a result, based on all the aspects addressed before, showing the changes that have been occurring since 2015, it is possible to conclude that the student loan performance in the Brazilian banks was affected and their strategy change is also another evidence of that.

### **Assess if student are having any issue regarding the obtaining and/or renewing of their loans since 2015**

According to the findings on the student answers in the questionnaires supported also by the literature review and some connections with the interview answers, it is possible to state that there have been several new or an increase of old issues for students to obtain or renew their student loans.

Firstly, regarding the people who has annual loans and that have to be renewed to continue their education, most of them are finding more difficulties on renewing it, which gives another sign that it is harder and it has impacted due to the political crisis. For instance, out of the 60% that answered that they have an annual loan, 39% confirmed that they are having more issues to renew it, as it will be explained afterwards. According to the reasons for that, it were presented different causes, being the most mentioned longer waiting for the bank response, struggling to pay the trimestral amount of R\$ 150 and missing the college deadline. On the other hand, it is important to highlight that the interviewee 2 stressed that this was a responsibility from MEC, the bank has no responsibility on it.

Secondly, another issue addressed was the interest rates. According to the questionnaire responded by students, the vast majority had a FIES loan whose interest does no change. However, out of the 29% remaining from other types of loans, approximately half of them, or 14% of the total, answered that the interest rate changed when they renewed the contract for another year. This change was not common before the crisis according to the literature review, so that it is another sign that it has been happening maybe because of the political crisis.

Thirdly, another aspect addressed was the payment extension. 56% of the respondents answered that required a payment extension but just 36% but just succeeded on obtaining it. This information along with the responses of the interviews with analyst from Itau and Banco do Brasil who confirmed that there was an increase in the number of requests since 2015. For instance, there was an increase of 7% on the requests in 2017 at Itau. This represents another evidence that students are having more issues on not just obtaining but also renewing their loans.

Fourthly, another sign of having more difficulties for obtaining a loan since 2015 came from the interviewees replies. They confirmed that more students are being reprovved and even some of the students that are approved to take the loan, decide to not take it. For instance, 20% of the FIES loans were not taken in 2017 whereas in 2014 all the loans were granted.

Fifthly, according to the interviews data, more people is failing to be approved to take the FIES in comparison to the years before 2015. It was not provided precise data about it but the interviewee 2 stressed that many students do not present satisfactory income to obtain the loans.

As a result, it is possible to state that students are struggling more to obtain and to renew their loans since 2015 due to a variety of reasons presented above.

### **Assess to which extent political instability and student loans are linked**

In order to assess it, both of the people involved participate on the research: bankers and students. The first ones were asked on the interview not just about the changes that have been happening on student loans since 2015 but also their opinion, without expressing any political preferences, about the effects of the political instability on it. The second ones were asked a number of questions of possible changes in their loans in the past three years and how is the level of connection between that and the political instability according to their opinions.

Interviewee 1 highlighted that the resources for Itau student loans come from the savings accounts. Because of the considerable reduction with people withdrawing capital due to the economic crisis, the disposal available for student loans also decreased as a consequence. The increase on the unemployment rates due to the economic crisis, which was caused firstly by the political instability, is also another indirect link since students had their income affected so that they struggle to obtain loans. Furthermore, this income reduction is the main reason for the failure of students to be approved on FIES according to interviewee 2.

Another link is regarding the uncertainty about new changes on FIES that are possible to happen in 2020 but that depends on the results of the elected political party next October. This uncertainty also can disturb the strategy and planning in advance of banks since they still do not know how deep

would be the changes in the rules of the program.

The levels of debt that the Brazilian population acquired from the Minha Casa Minha Vida housing program is also another indirect link since it affected the financial capacity of the population granting loans. Around 30% of income of those who granted the loan for the housing program is already compromised with it.

In addition, the opinion of the students was taken into consideration through some questions of the questionnaires. Firstly, the vast majority agreed about the unstable political moment of the country, and secondly, those who had changes in their student loans somehow, answered that they believe there is a link between the modifications and the political instability. Moreover, as addressed on the literature review, it is the first time that the student perspectives are taken into consideration on a research to assess the connection of loans with politics.

On the other hand, it is important to highlight that the banks are taking measures in response to the economic issues. The strategy change in order to prioritize quality debtors over quantity is an example which the bank succeeded to decrease student loan defaults in 2017.

Furthermore, all the modifications and changes mentioned on this section happened after the impeachment of Dilma Rousseff and the political instability, which reinforces that there is link between student loans and the political moment of a country.

As a result, the opinion of students in addition to the arguments of bankers presented and explained previously, it is possibly to confirm that there is a considerable link between the changes on student loans and the politic instability that has taken place in Brazil since 2015.

## 6. Conclusions

The aim of this chapter is to answer the research question based on the objectives result following the chosen research methods and assessed by the literature review.

The objectives explained on last section were:

- Discover if banks have had changes in their student loan performance since 2015
- Assess if student are having any issue regarding the obtaining and/or renewing of their loans since 2015
- Assess to which extent political instability and student loans are linked

The first objective was achieved as discussed in the last chapter by assessing through interviews their performance in two of the most important banks in the country. It were addressed the budget, quantity, payment extension approval, default loans and their performance in general since 2015. Both bank analysts agreed that there were the quantity decreased, not just the amount of loans diminished but also the students approval to take the loans as well a higher percentage of those who were approved but decided to not take the loan for personal reasons. There was a decrease on the budget but it is not a strong evidence since they explained that even during the peak of the program, banks run annual modifications according to their interests and goals. On the other hand, they admitted that the performance of student loans is not the same since 2015 due to the decrease on However, their credit portfolio are still strong with R\$ 564 billion for Itau and R\$ 684 billion for Banco do Brasil for example.

The second objective was achieved as discussed in the last chapter through the questionnaires responded by students. It were assessed their payment extension requests, payment extension approval, interest rate changes, difficulties on obtaining or renewing one student loan and their opinion on the connection between the modifications and the political moment. Having all examined to identify the majority of the answers, all these aspects have been suffering changes since 2015. The only one that it is still with a little modification is the interest rate since the vast majority of the loans come from the FIES whose interest rate of 3.5% cannot be changed according to the MEC policy as well as the entire course contract that cannot have the interest rate modified as well. As a result, it is possible to state that students are having more problems to obtain and renew their loans since 2015.

The third objective was achieved by using the data of both: the questionnaires and the interviews. The data of the first one was used not just to assess the modifications happened during the political instability but also to insert the opinion and the perspective of the students. After 88.2% agreed

about the serious moment of the political instability in Brazil, 52% of those who considered having changes in their loans considered that there is a high connection between what happened and the moment in Brazil whereas 22% confirmed that there is a considerable connection. Both together represent 74%, which is a high representation. In contrast, just 4% responded that there is no connection and 12% that there is a little association of both. 10% of the respondents answered that there is a medium relationship.

In addition, the data of the interviews was also used to reach the third objective. Firstly, with the indirect effect that due to the political instability and the economic crisis as a consequence, larger withdraws from the savings account which diminish the resources for student loans. Secondly with the information of the delay of 9 days on average that MEC started to have after the impeachment for transfer the due amount monthly. Thirdly, with the increase of people who is approved but decide to not take the loan due to a concern regarding the stability of their jobs.

As a conclusion, with the data of both primary research collected, it is possible to state that there is a link between the political moment and the changes happened.

The research question is:

- **How the political instability has affected the Brazilian banking system in terms of student loans?**

Based on the answers of the objectives, by gathering the opinion of the people involved, bankers and students, assessing that the bank performance has changed due to a variety of factors, that the students are having more issues to obtain an renew their loans; and by identifying a link between political instability and student loans, it is possible to answer the research question by confirming that the Brazilian banking system has been affected in terms of student loans by the political instability through:

- Raise of 7% default loans in 2015 and 2016
- Decrease of the quantity of loans reaching approximately 16%
- Roughly 10% more students being reprovved on FIES even with the reduction of the program
- An increase of 20% of FIES loans that are not being taken due to student choice
- A higher percentage of people that decide to not take FIES even after approval due to financial issues
- Delay on 9 days of the monthly MEC transfer to Banco do Brasil
- 7% more payment extension requests
- Banks focusing now on the quality of loans over quantity

- 74% of students who had changes on loans since 2015 consider that there is a considerable link between the modifications and the political instability
- Students struggling to enrol on universities due to the MEC delay
- Despite the differences of the student lending portfolio (Itau also offer its own student loans), both banks presented similar effects of the political instability in their student loans.

## **6.1 Limitations of the research**

- This researcher has a lack of experience on carrying out surveys nor analysing literature so that it might be not deep enough. In addition, English is just the second language of this researcher what have might caused some misunderstandings on some expression.
- Moreover, the researcher could not access deeply the banks data since the respondent could only give limited information and there were only two people that accepted being part of the interview since an employee of another bank, Caixa, could not participate on the research as planned by the researcher. As a result, by only being 2 participants for interviews, makes it harder to come to a conclusion when there is any answer different for any question. Both banks are the biggest in the country but maybe do not represent the same results, performance and opinions of all banks in Brazil.
- Furthermore, the sample chosen does not represent all the students in the country, which makes harder for making more accurate findings and conclusions. Just 51 out of the 60 questionnaires were responded and maybe it not illustrates the total of a continental country like Brazil.
- Regarding the third objective, assessing the link between political instability and student loans, this study gives useful insights and relevant information but it is still hard to state it precisely since this is just on the case of Brazil and more countries as well as numerical data would be necessary to confirm the relation between both themes.

## **6.2 Recommendations**

All in all, this study provides a good comprehension of the Brazilian situation at the moment in terms of student loans and it can serve as a basis and example for future research on student loans and its relation with politics and, more specifically, political instability.

- Since it is hard to assess the third objective of this research, defining the link between political instability and student loans, it is recommended for future studies to include more countries as an example to make the study broader and more precise.
- It is also recommended for future research to study on a larger sample of students.
- After the elections in October, depending on the political party that wins, more changes in the FIES are likely to happen as explained in the previous chapters. Accordingly, it is recommended to future studies to take into account of the implications of any further change if happens in the future.

## 7. Self-reflection

### 7.1 Introduction

In this chapter the researcher is going to explain the skills gained and developed throughout not just the dissertation development but also for the entire Master in Business Administration with emphasis in Finance program. In order to do so, the explanation will be based on the studies of Kolb (1984); and Honey and Mumford (1986).

### 7.2 Kolb style

According to the Kolb theory (1984), an effective learning is characterised by a progression through a cycle of four stages, which are: having an experience firstly, observing and reflecting on it, analysing and making a conclusion in order to test a hypotheses afterwards. In addition, this learning system is an integrated cycle, which an effective learning would be just possible through all the four stages in sequence. On the other hand, a single stage by its own cannot be effective by its own (Kolb, 1984).

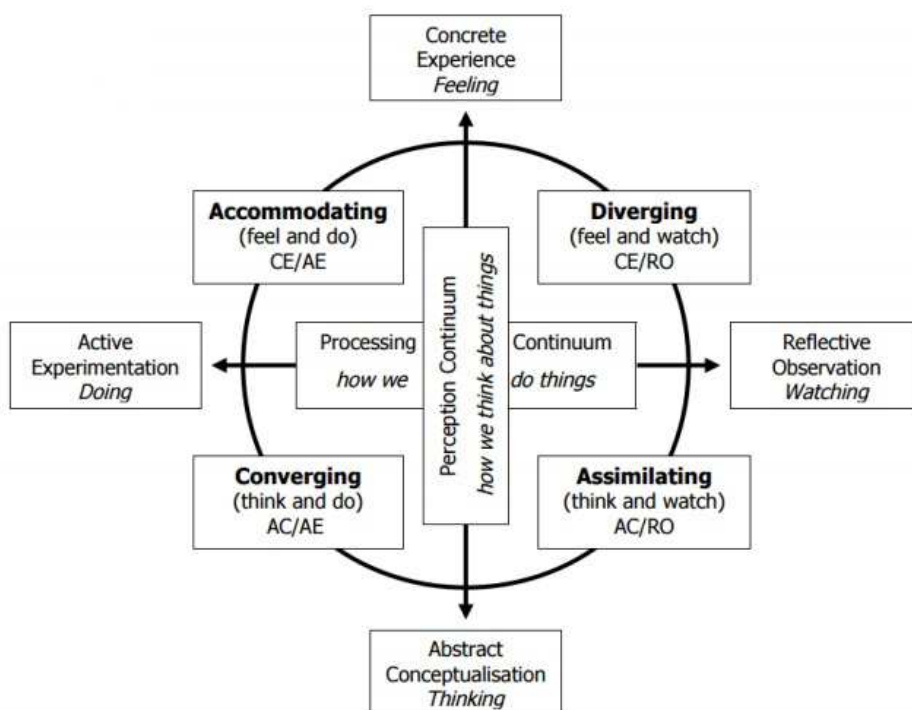


Figure 25 Kolb learning style. Source: Kolb, 1984.

#### Concrete experience

According to Kolb (1984), concrete experience is the action of learning from new experiences and/or reinterpreting existing experience. Accordingly, since my first degree in Brazil was in Architecture, a

completely different field from Finance, everything was new for me in the course. My only experience in a business-related job before starting the MBA was when I worked for two years in a property development department in a big civil construction company. In addition, this was the main reason that made me choose this course.

Furthermore, everything was very new to me in the course, except for the basics of some subjects that I knew by general knowledge such as mathematics and marketing basics. As a result, all the theoretical knowledge I was learning for the first time. In addition, I must highlight the three finance modules which I put more effort than the others since my MBA is in finance and I am more interested on this theme.

Moreover, another important issue that must be mentioned is the fact that it was my first degree in another language, which made me to be slow on doing the assignments especially in the beginning. Accordingly, it was my first experience of having to work in group with people from so many different backgrounds in terms of degrees and nationalities. In addition, it was during the course that I had my first oral presentation in English as well as my first primary research experience when I was doing my dissertation, which I did not have a very long time to do. Regarding my thesis, I just decided the topic during the second semester but I already had two semesters of draft experience in RM1 and RM2 to learn the basics of how to write a thesis.

### **Reflective observation of the new experience**

Kolb (1984) stated the reflective observation of the new experience aims to reflect about any inconsistencies between experiencing and learning. In addition, it is to review and reflect about all the experiences gained in the first stage (Kolb, 1984). Accordingly, all the theoretical knowledge gained on the classes has its value. While studying the course, different types of skills are required from the students since we study modules from so many different fields such as marketing, human resources and finance for example.

Regarding my dissertation, all the learning from the modules RM1 and RM2 are very important to the final dissertation since the time required in order to do so is not so long so. The research itself was also a good experience of how handling a short time to manage different tasks like conducting interviews, questionnaires and writing 20,000 words at the same time. It was an experience of handling not just time management skills but also focusing on deadlines.

Regarding my personal skills, working with groups of such different people requires better skills in terms of people management. What I mean by that is that everything must be planned carefully in advance in order to avoid problems regarding deadline, equal amount of work for every component and cultural differences.

### **Abstract conceptualisation**

According to Kolb (1984), abstract conceptualisation is the learning from the experience and/or the modification of a previous knowledge. Accordingly, I believe now that the more different backgrounds you have working together, more enriching the job can be. Many ideas are gathered from different perspectives and I also realised that this is the main reason for some famous companies recruit people that have studied so many different things.

Regarding my theoretical knowledge, studying modules from different backgrounds have made my knowledge more extensive since now I have the basis of important areas such as marketing, human resources and project management. Moreover, I also believe that studying a post graduate course is the best way to raise the level of English of a person to the work proficiency one since it is all the time a practice

### **Active experimentation**

Active experimentation is the stage where the learner applies the new knowledge to the world through putting it in practice (Kolb, 1984). Firstly, I have to mention that I already could put some the theoretical knowledge gained from the module classes in practice during my summer internship last year in the finance department of a HR recruiter here in Dublin. The job had a lot to do with accountancy concepts and more specifically, cost allocations, which I studied in Financial Analysis. As a result, I could see in first-hand how useful was to put a lot of efforts into my studies during the MBA. In corporate finance, the modules of mergers and acquisitions is something that also is appealing to me.

Secondly, coming to a conclusion in my dissertation made me realize how relevant was to study the modules of RM1 and RM2. I put in practice all the theoretical knowledge when conducting my primary research as well as writing my dissertation and I am sure that it would not be possible without the previous studying. I could apply the theories while conducting my tasks and everything worked properly.

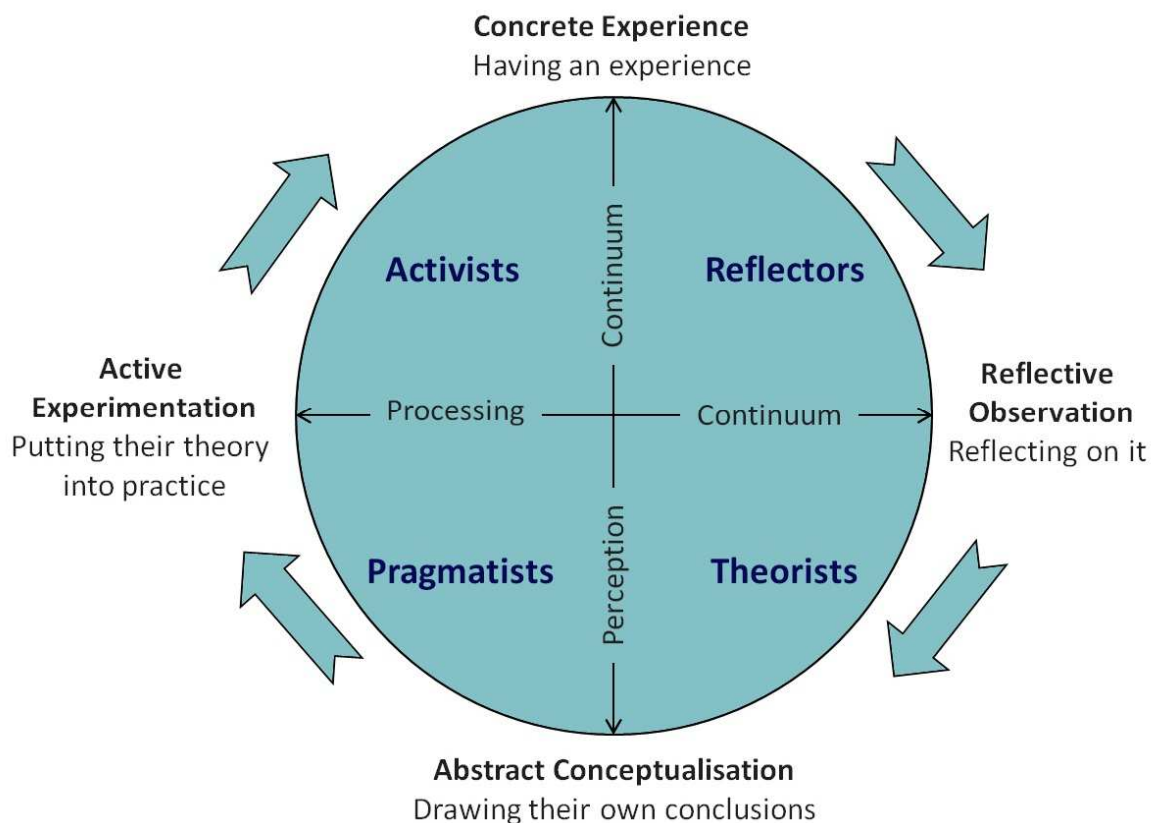
Thirdly, regarding my personal skills I also could put some of them I practice. I realized how easier is now to work with people from different nationalities, which is very common in Dublin, after all the group assignments at DBS. In my current work I have no problems on dealing with people from three different nationalities in my department. Accordingly, I also had to do an oral presentation monthly, which I have been successful and which I did previously in two modules in the MBA.

### **Conclusion**

After using the Kolb learning style, this author considers himself as a **diverging learner**. According to this theory, a diverge learner is able to look at things from different perspectives (Kolb, 1984). Accordingly, throughout my MBA program, I preferred watching rather than doing straight forward, gather information and then solving the problem. I also believe that this one is the most suitable learning style for me since it considers the issue from different perspectives.

### 7.3 Honey and Mumford

Based on the work of Kolb, Honey and Mumford developed a four type learning style theory: activists, theorists, pragmatist and reflector as illustrated in the figure below.



**Figure 26 Honey and Mumford learning style. Source: Honey and Mumford, 1986.**

The features that are involved with the four types of learners are:

Activists – Brainstorming, problem solving, group discussion

Theorists – models, statistics, quotes

Pragmatists – time to think about how to apply theory into practice, case studies, problem solving

Reflectors – coaching, interviews, self-analysis questionnaires (Honey and Mumford, 1986).

## **Conclusion**

After answering the questionnaire of Honey and Mumford, the type of learning of this author is **activist**. This author agrees with the result since it is according to the previous result of the Kolb style and it involves a lot of brainstorming, problem solving and group discussion.

As a result, I believe that I have considerably developed my skills and knowledge to put in practice in the workplace.

## **7.4 Self- reflection conclusion**

As a result, after taking different modules that focus on different aspects of business such as Finance, Marketing, Human Resources and Project Management this author considers himself much more prepared to enter the market place, especially on the Finance Analysis sector, which is my focus. By conducting a financial analysis on a company's financial results for their last three years and comparing it with the industry average and its main competitor, my self-confidence on my theoretical knowledge is higher.

Moreover, since I am planning to work within the Financial Analysis sector, I believe that the assignment of the analysis of the financial results of a company for three years and making a comparison with competitors and the industry average was vital and essential for my technical knowledge improvement.

In addition, if there were two things that I would modify in the program of the Finance stream, that would be firstly the focus on how to conduct primary research. I believe that it is a vital part of the MBA and for the dissertation, especially for students who never had conducted such a thing. As a result, I think that students should have more time to learn and practice it through the modules of Research Methods. Another possible modification would be the dilution of the module Corporate Finance into two modules. The reason for that is that this author believes that there are many important aspects addressed for just one single module. Maybe if the content was divided into two modules, the subjects such as Mergers and Acquisitions, Debt and Equity or Investment appraisal could have had a deeper approach and learning.

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## **Appendix 1 – Primary Research Material**

Interview questions:

- 1) Could you introduce yourself?
- 2) How student loans have performed since 2015?
- 3) Have student loans been diminished in terms of quantity since 2015?
- 4) Has the student loan budget suffered any change since 2015?
- 5) Have the approval percentage of payment extension requirements changed since 2015?
- 6) How student loans have been impacted by the political instability in your opinion?
- 7) Would you like to make any final considerations?

Questionnaire questions:

1) What is your gender?

- Male
- Female

2) What is your family monthly income? (in Reais)

- 0 – 1,600
- 1,601 – 2,500
- 2,501 – 4,000
- 4,001>

3) What is your student loan type?

- FIES
- Another type

4) Is your loan annual or for the full-course period?

- Annual
- Full-course period

5) If it is annual, have you struggled to renew your loan since 2015?

- Yes, I have.
- No, I have not.
- N/A

6) If positive answer, what would be issues on renewing it?

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7) Has your interest rate suffered any increase change in its percentage since 2015?

- Yes, it has.
- No, it has not.

8) Have you requested any payment extension for the loan since 2015?

- Yes, I have.
- No, it have not.

9) In case of positive answer in the previous question, have you succeeded in your request?

- I succeeded.
- I did not succeed.
- N/A.

10) Regarding the current political moment of the country, do you believe that this is an unstable moment for the Brazilian politics?

- Yes, it is an unstable moment for the country.
- No, I believe that it is stable.

11) In case your student loan suffered any change since 2015, how do you connect this with the current political instability?

- No connection.
- Little connection.
- Medium.
- Considerable connection.
- Strongly connected.

## **Appendix 2 – Info consent form template**

### **INFORMATION SHEET FOR PARTICIPANTS**

#### **PROJECT TITLE**

**How the political instability has affected the Brazilian banking system in terms of loans?**

You are being asked to take part in a research study on a research about the effects of the current political instability in Brazil on the student loans so far. The research is being conducted by me, Rodrigo Dultra, a student of the MBA in Finance program at Dublin Business School in Ireland and supervised by the lecturer Enda Murphy. The aim of this research is to provide a more comprehensible understanding of the current situation and asses to what extent there is a link between political instability and student loans.

#### **WHAT WILL HAPPEN**

In this study, you will be asked to answer a few questions about what has happened since 2015 on student loans to assess the impact of the political crisis on it. It aims to meet the following objectives: discover if banks have had changes in their student loan performance since 2015, assess if student are having any issue regarding the obtaining and/or renewing of their loans since 2015 and assess to which extent political instability and student loans are linked. The data collected from the interview will be gathered with questionnaires responded by students in order to analyse to answer the research question.

#### **TIME COMMITMENT**

The study typically takes roughly 20 minutes for the only interview that is going to be conducted.

#### **PARTICIPANTS' RIGHTS**

You may decide to stop being a part of the research study at any time without explanation required from you. You have the right to ask that any data you have supplied to that point be withdrawn / destroyed.

You have the right to omit or refuse to answer or respond to any question that is asked of you.

You have the right to have your questions about the procedures answered (unless answering these questions would interfere with the study's outcome. A full de-briefing will be given after the study). If you have any questions as a result of reading this information sheet, you should ask the researcher before the study begins.

#### **CONFIDENTIALITY/ANONYMITY**

The data I collect does not contain any personal information about you except the bank that you work for and your department but not your position to preserve yourself.

#### **FOR FURTHER INFORMATION**

I or / and Enda Murphy will be glad to answer your questions about this study at any time. You may contact my supervisor at [enda.murphy@dbs.ie](mailto:enda.murphy@dbs.ie) or 014177500.

**INFORMED CONSENT FORM**

**PROJECT TITLE: How the political instability has affected the Brazilian banking system in terms of loans?**

PROJECT SUMMARY: Brazil is currently passing through a unique moment in its history. A mass corruption scheme has been under investigation over the last three years and it has made many politicians be convicted and go to jail. However, what has not been addressed yet is to what extent this political instability has affected the student loans, an important aspect for to continuous development of the country.

This research aims to assess how the student loans have been affected by the political instability in the country. Accordingly, primary data and second data will be collected in order to run the analysis on the theme. The first one will be collected from interviews and questionnaires while the second one from articles, books and academic articles to constitute the literature review. Moreover, gaps were identified in the existing knowledge about the theme and will be discussed and analysed.

In addition, it has been taken an interpretivism + positivism, inductive, survey, mixed-methods, cross-sectional, qualitative + quantitative research design, which is explained in the research methodology chapter. Furthermore, this research contributes in the relation between political instability and student loans by assessing the Brazilian situation at the moment.

By signing below, you are agreeing that: (1) you have read and understood the Participant Information Sheet, (2) questions about your participation in this study have been answered satisfactorily, (3) you are aware of the potential risks (if any), and (4) you are taking part in this research study voluntarily (without coercion).

\_\_\_\_\_  
Participant's signature

\_\_\_\_\_  
Participant's Name (Printed)

\_\_\_\_\_  
Student Name (Printed)

\_\_\_\_\_  
Student Name signature

\_\_\_\_\_  
Date

## **Appendix 3 – Interview transcripts**

### **Interview 1: Analyst of Itau Bank**

**Rodrigo Dutra:** Good afternoon, could you introduce yourself please?

**Interviewee 1:** Good afternoon I am an analyst of loans at Itau Bank in Sao Paulo. I have worked nine years for Itau but I just joined this department in June 2013 so I can only explain in details what has been happening here since and I would also like to say firstly that I am not allowed to express any political preference since I am speaking in the position of employee of Itau.

**Rodrigo Dutra: How student loans have performed since 2015?**

**Interviewee 1:** Well, we have a range of different loan products for students here in the bank. We are currently running not just the government program FIES, which is the best in the market, for sure, since it has the lowest interest rate and the longest payment period, but we also have other options to offer to students that are not approved in the government program. We also offer other types of loans for students like the 'Pra Valer', that can reach only up to 50% of the course and be with a university that is a business partner with the bank. A list of universities that we have society with is available on our website.

We have another type of loan for those that are not approved in the 'Pra Valer', due to their family monthly income or according to their results in high school, but by far the most popular one is still the FIES.

All in all, the total amount of student lending has been diminished since the peak of the government program in 2014. I believe that for two main reasons: the changes in the rules of the FIES program and also the fear of the public of getting a loans and not being able to pay it afterwards. Not just students but the entire country, especially investors are in this same situation, all the departments in the bank had a similar situation, dealing with current difficulties in the economy but keeping achieving success.

It is also important to highlight that although the FIES had a decrease in its number, it did not represent an increase in the other loans. This can be a sign that maybe students are preferring to not go to college at all rather than taking the long term responsibility of granting a loan. We think that this is not a suitable approach and we are pretty sure that we can convince the ones that are unsure about the possibility of granting a loan.

**Rodrigo Dutra: Have student loans been diminished in terms of quantity since 2015?**

**Interviewee 1:** Yes, for sure. Nowadays, even after the limitation of loans for the program, 2 out of 10 students that are eligible to get a loan, do not do so for a number of possible reasons as explained in the last question. For instance, the government planned to offer 310,000 loans through the program, which represents approximately just half of what was offered in 2014, last year before the crisis. I can't give you in details due to the bank policy but it has diminished roughly 16% almost.

But as explained before, it is not just student lending, it was 12% less to individual loans and 14% less to micro, small and medium companies. Just a few are still stable like the provision for vehicles purchase.

**Rodrigo Dutra: Has the student loan budget suffered any change since 2015?**

**Interviewee 1:** All the budgets at Itau suffer annually changes according to the bank necessities and objectives, which is perfectly normal. Regarding the student loans, there is anything specific or special to mention but I believe that the last changes were not mainly caused by the bank but by the government. Itau still has enough money to keep lending, our credit capital disposal is currently R\$564 billion but it is the government which is still changing the rules. Our net margin profit grew by 10.7% last year in comparison to 2016 due to mainly to cost reductions, especially on the provision for doubtful debts. In my opinion, that aggressive expansion policy from years ago is over, the government is no longer stimulating the entrance in universities as it was in previous years.

That is why that now the current trend is to adequate to this new reality. I would not say that our budget has decreased, but our goal since there is capital available but the market conditions don't permit us to keep our high levels of lending from past years. In addition, it is expected that the rules for FIES suffer another changes from 2020 on but this is a project of Michel Temer so its success depends also on the next president elected this year. This can take another path depending on the successful candidate but we do not believe on a deep change on the program due to its success.

Another change is that the capital resource for student loans from Itau come from the saving accounts of the bank. We allocate this resources for the loans since that according to Itau policies we just cannot move money from the current accounts. What I have observed from that is the savings total amount is decreasing since people is taking out due to the crisis, they are losing their jobs so they withdraw this money for necessity. The logical implications of that is that the disposal of capital for student lending, therefore, decreased as well but it is still high with R\$564 billion, the biggest in the market regarding private banks as mentioned before. Our current default percentage, which is measured by the amount of people who outstanding instalments for 90 days or more was 3.9% for 2017, less than the Brazilian average that is 5.6% for the same period, which gives another sign to the market of how strong is our financial situation.

**Rodrigo Dutra: Have the approval percentage of payment extension requirements changed since 2015?**

**Interviewee 1:** Yes, we have noticed that more students are asking for extensions, last year it increased 7% for example. The level of leverage of Brazilians are much higher than a decade ago. Many of them have bought houses from the MCMV (Minha Casa Minha Vida program) and already compromised a huge percentage of their salaries. Also the deadline for this loan is up to 30 years, higher than for the FIES, which makes it even harder to pay. Moreover, of course that the political instability that is causing our economic crisis affected that. You can see that many people is losing their jobs, causing a higher unemployment rate and, consequently, not having money to pay their installments. This is an explainable context for those who are quitting of taking a loan under the FIES condition since they come from lower income backgrounds. This is also a sign that the default levels can increase in the short time as a consequence.

**Rodrigo Dutra: How student loans have been impacted by the political instability?**

**Interviewee 1:** Well, I don't believe that it has impacted it directly but indirectly, definitely. Although Dilma and Temer were from the same political party in the previous elections and have worked together for a year, both governments have had different approaches to the student loans. They have made some small changes in the structure of the program, trying to keep it attractive it but last year for example, 2 out of 10 loan possibilities from the government wasn't granted.

I also believe that students are more cautious when it comes to obtaining a loan, many people that come here in the bank, are able to meet all the requirements for granting the loan but they do not finish the process since they are scared of not keeping their jobs. In other words, they are concerned about not being able to pay the loan even though the payment conditions are better at the moment.

Another concern that they express very often is about to what extent the degree is going to make a difference in their lives. Many people is graduating and the aim of the bank is to assist them with their objectives.

**Rodrigo Dutra: Thanks a lot! Would you like to make any final considerations?**

**Interviewee 1:** Student lending is a vital part for Itau. We believe that is one of our many important missions and we will continue achieving our best performance for students. Thank you for inviting Itau to be part of this research, we feel very glad for having been considered for it.

**Rodrigo Dutra:** Great, thank you very much for the acceptance to be a respondent in this research.

## **Interview 2: Analyst of Banco do Brasil**

**Rodrigo Dutra: Good afternoon, could you introduce yourself please?**

**Interviewee 2:** Good afternoon, I am an analyst at Banco do Brasil. I am currently working in the headquarters of Salvador and I am available to respond any queries unless is related to political parties in order to avoid future issues.

**Rodrigo Dutra: How student loans have performed since 2015?**

**Interviewee 2:** The only product for student loans that we run here is the FIES, a government policy created by the government of years ago to assist especially students that come from lower classes to have access to tertiary education. The student lending performance of Banco do Brasil cannot be analysed without it and we have to mention is that although the program was reduced last year, it has not been fully reached in terms of its disposal of loans. It has decreased since 2015 by 10% but I also have to mention that this is not under Banco do Brasil's responsibility; we just follow instructions by the MEC, which is in charge of approval for the credit provision so it is their responsibility of denying loans for students that are not adequate to the restrictions.

As a consequence, the competition in the student lending sector became much higher for our bank, some private banks are taking advantage of the situation and more private loan products are being offered for the public now. They cannot reach the interest rate of 3.5% that FIES has, but they represent some alternative options for those that cannot sign with us here. Taking that into account, student loans are performing satisfactorily in comparison to a decade ago. Many people believe that there is a crisis in the student lending sector because the number dropped in general since the crisis began, which is true, but Banco do Brasil does not regard the loan sector in a crisis at all.

Regarding our entire credit portfolio, different sectors presented different performances. Loans for corporate bodies decreased 9.3% whereas for individuals increased only 2.7%. However, it must be taken into account that the quality of our credit portfolio is better nowadays and that was our goal for last year. Default loans has been a constant concern at Banco do Brasil since 2015 and that was our response to the issue. Even with these changes our credit portfolio is still high with R\$ 684.2 billion.

**Rodrigo Dutra: Have student loans been diminished in terms of quantity since 2015?**

**Interviewee 2:** I cannot reveal it with precise details but, answering your question, the number has decreased for sure. We believe that in parts due to current economic moment that we have in the country. As explained in the last question, many people is not approved to take the FIES loan so it is

not something that the bank can control, different from the other types of loans like corporate bodies and individuals. I believe that this is also linked with the financial conditions of the students currently.

**Rodrigo Dutra: Has the student loan budget suffered any change since 2015?**

**Interviewee 2:** All the public budgets, not just on loans, not just on banking so yes, it has decreased. Focusing more specifically on loans, currently default loans hit 42% after reaching 53% in the end of 2016, the highest percentage since 2003. It is not yet a concern but it will be observed and treated carefully for sure if this percentage rises again. As explained before, the target was not to increase the provision of loans as it was being done before but to improve the quality of the ones that we have.

For example, the student lending is lower but the default percentage also decreased and Banco do Brasil is making more profit on current currency fees, having R\$ 6.9 billion, a raise of 11% in comparison to the previous year. Funding administration raised 26%, reaching R\$ 5.9 billion. These are numbers that show evidence of how the bank responded well to the market downturns.

**Rodrigo Dutra: Have the approval percentage of payment extension requirements changed since 2015?**

**Interviewee 2:** Yes, we are receiving a higher number of extension requests in the office. Students that are struggling even with the trimestral fee of R\$150 that is charged until the end of the contract or the end of the course. It is also requested from students to justify any change that they may wish. Everything must be recorded accordingly and then we can assess if it would be sustainable to give it. More extension requirements are coming but Banco do Brasil cannot provide it for everybody according to our internal client evaluation otherwise our default loan rate would probably increase. A better borrower quality is definitely an often concern for us.

**Rodrigo Dutra: How student loans have been impacted by the political instability?**

**Interviewee 2:** While working close to MEC in this process, I believe through observation that more people is failing to be approved to obtain the loan, which means that somehow their income is not enough to represent a positive quality loan for Banco do Brasil.

If the student has a loan for the whole course, he is secure by the contract. What is in the contract stays like accordingly. In terms of interest, duration of contract and total amount does not change. The change on the interest rate is just possible when there is just a renew of contract. The bank is not allowed to make any change of an existing contract, which is a sign of how secure is for the student to pursue a loan nowadays.

Regarding the renew of contracts, the only thing that is delaying the sign of renews is the value transferred from MEC, the government body responsible for FIES, to pass the due value for us. This is not a responsibility from the bank and this is causing a delay on the signing of contracts, which is disturbing students as a consequence. We received many calls to complain last January when the enrolments for the school year were due and many students were not with the loan granted yet. Some college directors called our branch to confirm if there was any issue regarding the delay. Hopefully they understood us.

**Rodrigo Dutra: Thank you. Would you like to make any final considerations?**

**Interviewee 2:** Yes, thank you for coming here, I believe that was a very useful conversation and I hope that it will help you in answering your research question. If you need any other information please feel free to contact me.

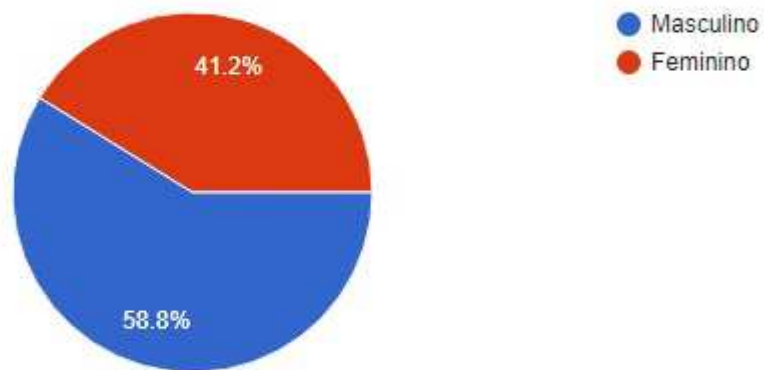
## Appendix 4 – Quantitative data

### Question 1 - What is your gender?

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1) Qual o seu gênero?

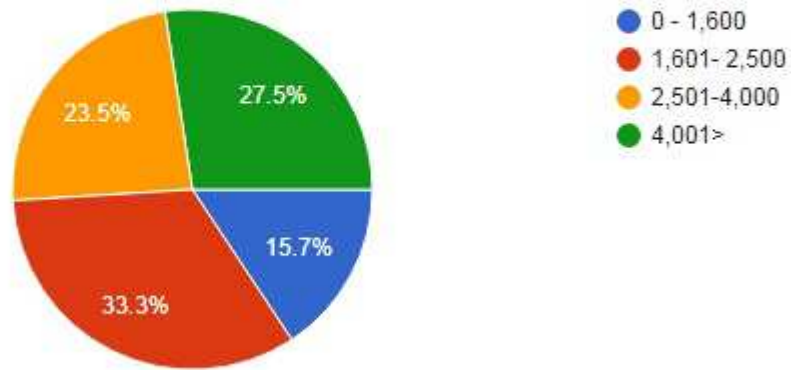
51 responses



### Question 2 - What is your family income?

## 2) Qual a sua renda familiar?

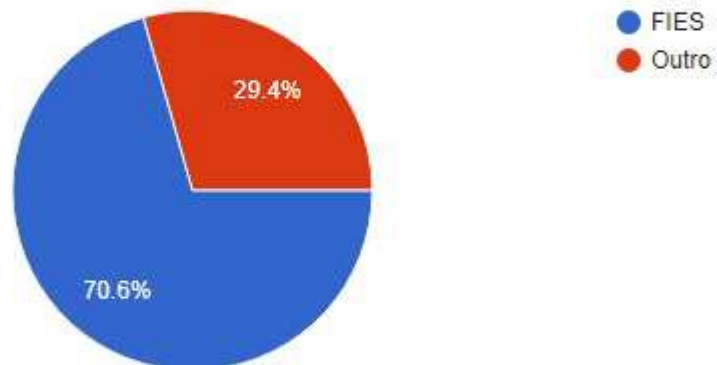
51 responses



## Question 3 - What is your student loan type?

### 3) O seu empréstimo estudantil é do FIES ou de outro tipo?

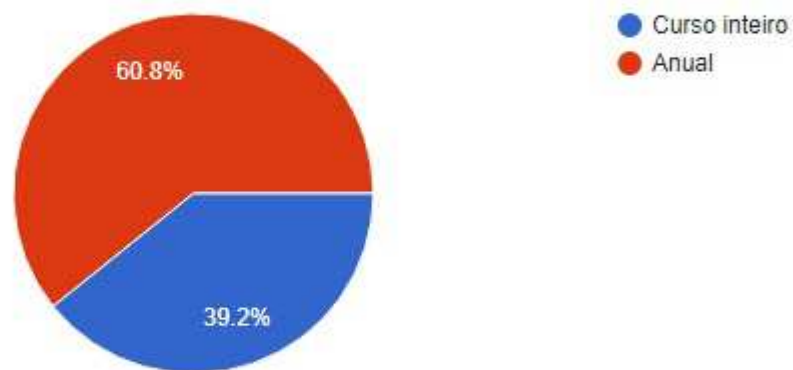
51 responses



## Question 4 – Is your student loan annual or for the whole course?

#### 4) O seu empréstimo é para o curso inteiro ou anual?

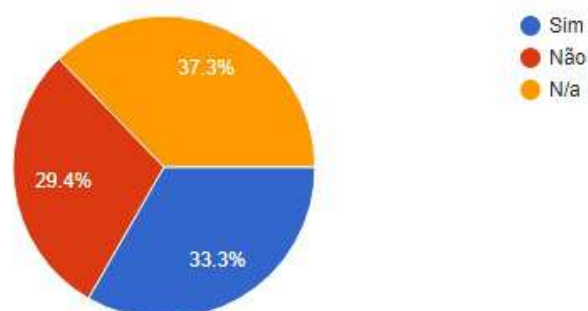
51 responses



#### Question 5 – In case it is annual, are you having more difficulties to renew your loan in comparison to the years before 2015?

5) Caso seja anual, você esta tendo mais dificuldades de renovar o seu empréstimo desde 2015 em relação a anos anteriores?

51 responses



## Question 6 – In case of a positive answer, what would be the difficulties presented?

6) Caso em resposta afirmativa, qual (quais) seria (seriam) as dificuldades apresentadas?

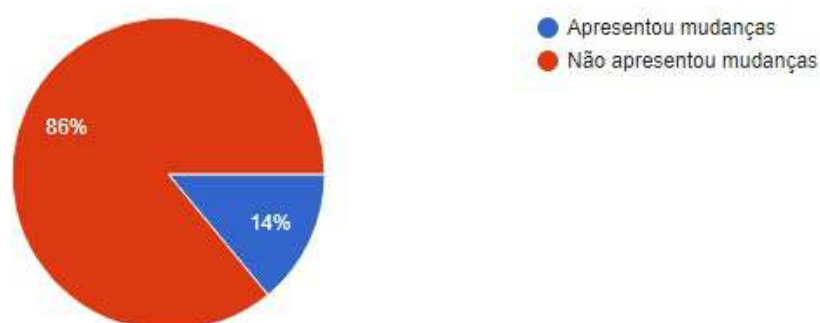
38 responses



## Question 7 – Has your loan interest rate had any change since 2015?

7) A sua taxa de juros do empréstimo apresentou alguma mudança desde 2015?

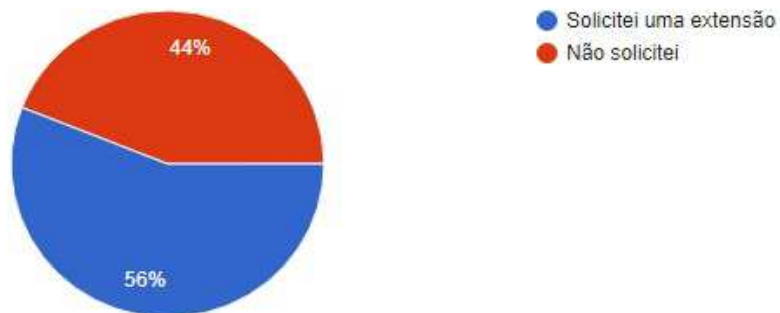
50 responses



## Question 8 – Have you requested a payment extension for the loan since 2015?

8) Você chegou a solicitar uma extensão de pagamento para o empréstimo desde 2015?

50 responses

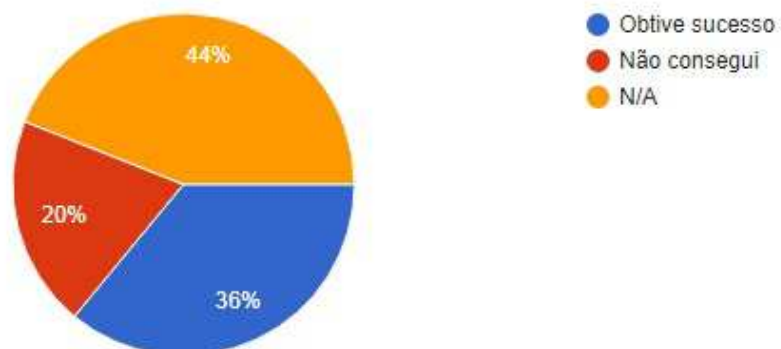


**Question 9 – In case of an affirmative answer, did you succeeded on it?**

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9) Caso solicitou, obteve sucesso?

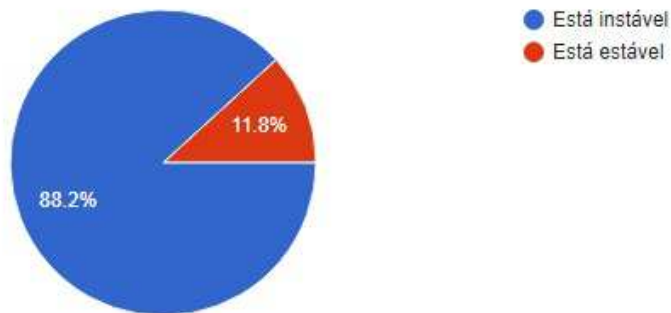
50 responses



## Question 10 – Regarding the political moment of the country, how would you rate it?

10) Com relação ao atual momento político do país, você acredita que seja um momento instável para a política do país?

51 responses



## Question 11 – If your student loan has suffered any modification since 2015, how do you rate the connection between it and the political moment?

11) Se o seu empréstimo estudantil sofreu alguma alteração desde 2015, o quanto você avalia a conexão disso com o momento político do país?

50 responses

