

Student Loan Repayment and Recovery: New Findings



Adrian Ziderman

Bar-Ilan University, Israel
zidera@mail.biu.ac.il

Presentation draws upon a joint paper with
Dr Hua Shen,
at present at Peking University

Four topics for discussion today

Loans schemes: alternative objectives

Defining loans repayment and recovery

Results for 44 loans schemes worldwide

Conclusions for policy

1. Loans scheme: alternative objectives

Budgetary

Social

Budgetary objectives: cost-sharing

Need to generate additional funding for the universities

Because of

- Reduced government budgetary allocations

- Rising unit costs

- Increase in student enrollments

Loans are introduced to facilitate student fee increases

Social objectives:

Loans targeted on lower social-economics groups
- needy students, disadvantaged groups etc.

Reaching out to these groups to increase access

The financial integrity of loans schemes is frequently undermined

To understand why this is so, we turn to a discussion of the financial underpinnings of loans schemes

2. Loans schemes: financial analysis

Loans repayment

Hidden grants

Loans recovery

Focus on the individual borrower

Loans repayment:

How much of a loan is a borrower required to repay?

Repayment ratio:

Present value of required payments / Present value of loan received

The individual borrower

Low repayment ratio (high hidden grant) stems from:

- Below-market rates of interest

- Interest free study and grace periods

- Repayment in nominal terms

- Extended repayment period

These are **built-in features** of the scheme

Loans recovery: the overall perspective

Loans Recovery:

How much of loans scheme total outlay (loan disbursements plus administration costs) is recovered?

Recovery Ratio:

*Present Value of receipts from repayments /
Present Value of total outlays*

Reasons for Low Recovery Ratio

Built-in features of the loan scheme:

Low (subsidized) rates of interest

No interest payment during study and grace periods

Repayment in nominal terms

Extended repayment horizon

Administrative efficiency of the scheme

Non-Repayment ("default")

Administration Costs

3. Loans Repayment and Recovery: Results for 44 loans schemes worldwide

Loan Repayment:

Refer to Handout, Table
1

Repayment ratio	Number of loans schemes
Above 80 percent	13
61 - 80 percent	13
41 – 60 percent	8
21 – 40 percent	7
20 percent or less	3
Total	44

Repayment by country income level			Repayment by continent		
Income level	Repayment ratio		Continent	Repayment ratio	
	Average	Median		Average	Median
High income	74.13	74.30	Americas	71.75	79.39
Upper middle	51.07	50.04	Australasia	66.59	66.59
Lower middle	53.84	56.09	Asia	65.28	69.74
Low income	45.59	37.19	Europe	63.59	64.70
			Africa	41.84	37.19
All countries	60.85	64.63	All countries	60.85	64.63

Country	Repayment ratio	
	Earlier research (Ziderman & Albrecht)	Current research
Similar repayment ratio		
Kenya	30	27.93
Jamaica	44	47.55
Increased repayment ratio		
Australia	52	74.30
Colombia	71	83.17
Denmark	48	64.76
England & Wales	74	87.81
Finland	55	90.33
Hong Kong	57	69.20
Japan	50	64.55
USA	71	82.88
Decreased repayment ratio		
Indonesia	43	27.56
Norway	67	56.61
Sweden	72	64.63

Loans Recovery: Efficiency of loans schemes

Refer to Handout, Table 2

Repayment and recovery ratio: average for 26 programs

Repayment ratio

Recovery ratio
(with default)

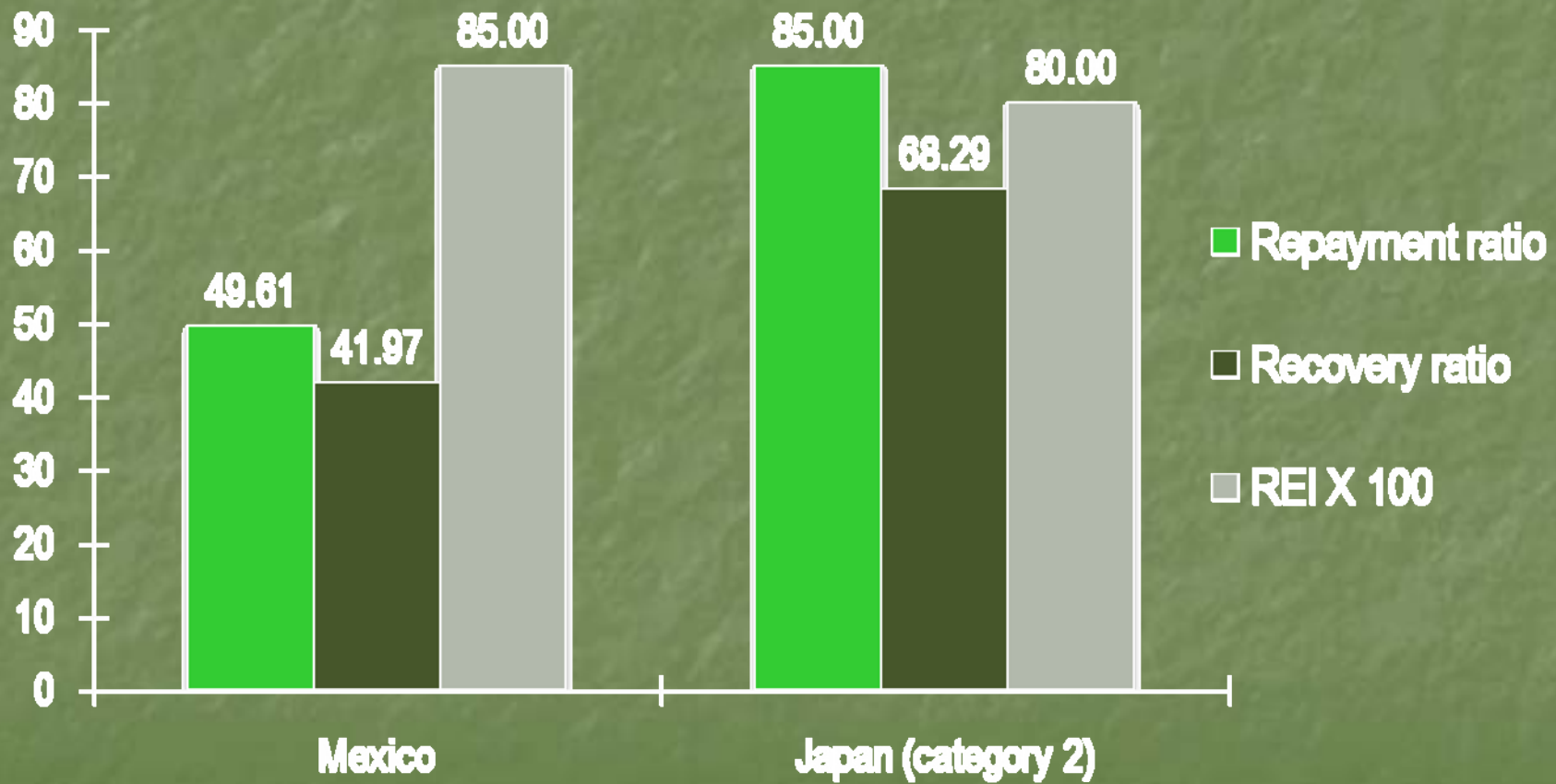
58.89

49.15

$$\text{Relative Efficiency Index} = \frac{\text{Recovery Ratio}}{\text{Repayment Ratio}}$$

$$\text{REI, Jamaica: } 19.17 / 47.55 = 0.40$$

Loans program	(1) Repayment ratio	(2) Recovery ratio - default & costs of administration	(2/1) Relative efficiency index
Higher efficiency			
Mexico – SOFES	49.61	41.97	0.85
Japan – category 2	85.00	68.29	0.80
Japan – category 1	64.55	50.43	0.78
Lower efficiency			
Malaysia	56.67	28.68	0.51
South Africa	50.47	25.01	0.50
Jamaica	47.55	19.17	0.40
Highly inefficient			
Philippines	66.01	-22.05	-0.33



Country	Recovery ratio, incorporating default	
	Earlier research (Ziderman & Albrecht)	Current research
Similar recovery ratio		
Kenya	6	5.59
Jamaica	38	34.23
Increased recovery ratio		
Colombia	62	68.60
Hong Kong	57	68.51
Japan	49	59.39
USA	59	78.66
Decreased recovery ratio		
Indonesia	39	24.80
Norway	67	56.23

Maximal recovery ratios: default and assumed administration costs	Number of loans schemes
Above 80 percent	0
61 - 80 percent	5
41 – 60 percent	11
21 – 40 percent	2
20 percent or less	8
Total number of schemes examined	26

4. Conclusions for policy

Built-in subsidies versus loans scheme inefficiencies

Confronting built-in over subsidization

Minimizing loans repayment default

Quote

'I would prefer a loans scheme with a high default, to a continuation of high direct subsidies'

George Psacharopoulos

Conference on Funding, Equity and Efficiency
of Higher Education,
Portoroz, Slovenia – 21-24 November, 2007

Where student loans schemes have clear social objectives, they have *not* proved be effective in raising the access to tertiary education, of lower socio-economic groups

Barriers to access are not only, or mainly, financial

Financial poverty vs. informational poverty (Barr)

Prior action:

to better inform and raise aspirations
structural reform of secondary education

Assisting the poor: five key conditions for increasing access of disadvantaged groups

Effective eligibility and screening criteria

Pro-active targeting, not just passive screening

Adequacy of loan size

Favourable loans conditions

Unifying grants and loans policy

Minimizing Repayment Default

- Avoid heavy repayment burden
- Defer repayments when income temporarily low
- Use effective guarantors
- Employ specialized collection agencies
- Provide incentives for collection agency to collect
- Use available sanctions

Sanctions Against Repayment Default

Country	Sanction	Comments
China Subsidized scheme	Students individual credit Moral pressure: publish defaulter list	
China Non-subsidized	Family co-signatures / pledged assets as collateral	Effective, but restricts loans to better-off students
Hong Kong Subsidized scheme	Loan Guarantor	Serious and prolonged defaulters are referred to the Department of Justice for legal recovery
Korea Ministry Education scheme	Joint surety (parents); Loan insurance; Moral pressure: publish defaulter list; Bar access to further credit if in default	
Korea Government employees	Joint surety (parents); Moral pressure: publish defaulter list; Bar access to further credit if in default	
Philippines National scheme	Loan Guarantor	Ineffective: guarantors not required to pay-off "bad" loans. Virtually no loans repayment
Philippines (Reg.5)	None	
Philippines (COE)	Loan Guarantor	
Thailand	Loan Guarantor; legal action	Reluctance to turn to guarantors

Loan Scheme Objective	Measure of success	Coverage	Substantial subsidy justified ?
Budgetary (cost recovery)	More resources for universities	All students**	No
Social, equity	Increased access for the needy	Only targeted students	Perhaps

*** If loan budgets are limited, loans must be rationed*

In sum:

Many loans schemes are highly subsidized, by (deliberate?) design.

Excessive built-in subsidies result in low repayment ratios and, in turn, low recovery.

But high built-in subsidies are either:

Largely unnecessary (cost-sharing), or

Not effective in practice (social targeting)