AN ESRC & HEFCE INVESTMENT

CENTRE FOR GLOBAL HIGHER EDUCATION

Worldwide Reforms in Student Loans Policy

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Outline

(i) The Economics of Higher Education: The need for student loans

(ii) The Different Types of Student Loans: TBRL and ICL

(iii) History of ICL reform: pre-1989 to 2017+

(iv) The Basic Problem with TBRL: Repayment burdens (RBs)

(v) RB Calculations Illustrated: The Case of Ireland

(vi) International RB Estimates

(vii) Default rates

(viii) Current HE Financing Policy Research

(i)The Economics of Higher Education: The need for student loans

- **Why won't banks help?**
- **Risks with HE investment:**
  - non-completion, occupational competition, the future labour market
- **No collateral with default**
  - nothing to sell
- **Thus, intervention with government loans**

(ii) The Different Types of Student Loans: TBRL and ICL

- TBRL: Repayments conditioned by time (5-17 years)
  - The US, Canada, Thailand, Colombia

- ICL: Repayments conditioned by income
  - Australia, New Zealand, England

(iii) History of ICL reform: pre-1989 to 2017+

(i) Pre-1989: no ICL, TBRL in many countries (eg the US, Canada, Colombia)

(ii) Australia 1989; New Zealand, 1992; the UK, 1997; Ethiopia, 2001; Hungary, 2003; Thailand, 2006 (only); South Korea, 2011; the Netherlands, 2016.

(iii) Possible 2017 ICL adoption: Colombia (?), Ireland (?) and Japan (?)

(iv) On-going research and debate in: Malaysia, Colombia, Ireland, the US, China, Japan and Brazil

(iv) Why is this happening?
The Basic Problem with TBRL: Repayment burdens

RB = REPAYMENTt/INCOMEt

Eg Loan Repayment = £500

Income = £5000

RB = 500/2000 = 0.1

OR

Loan Repayment = £500

Income = £1000

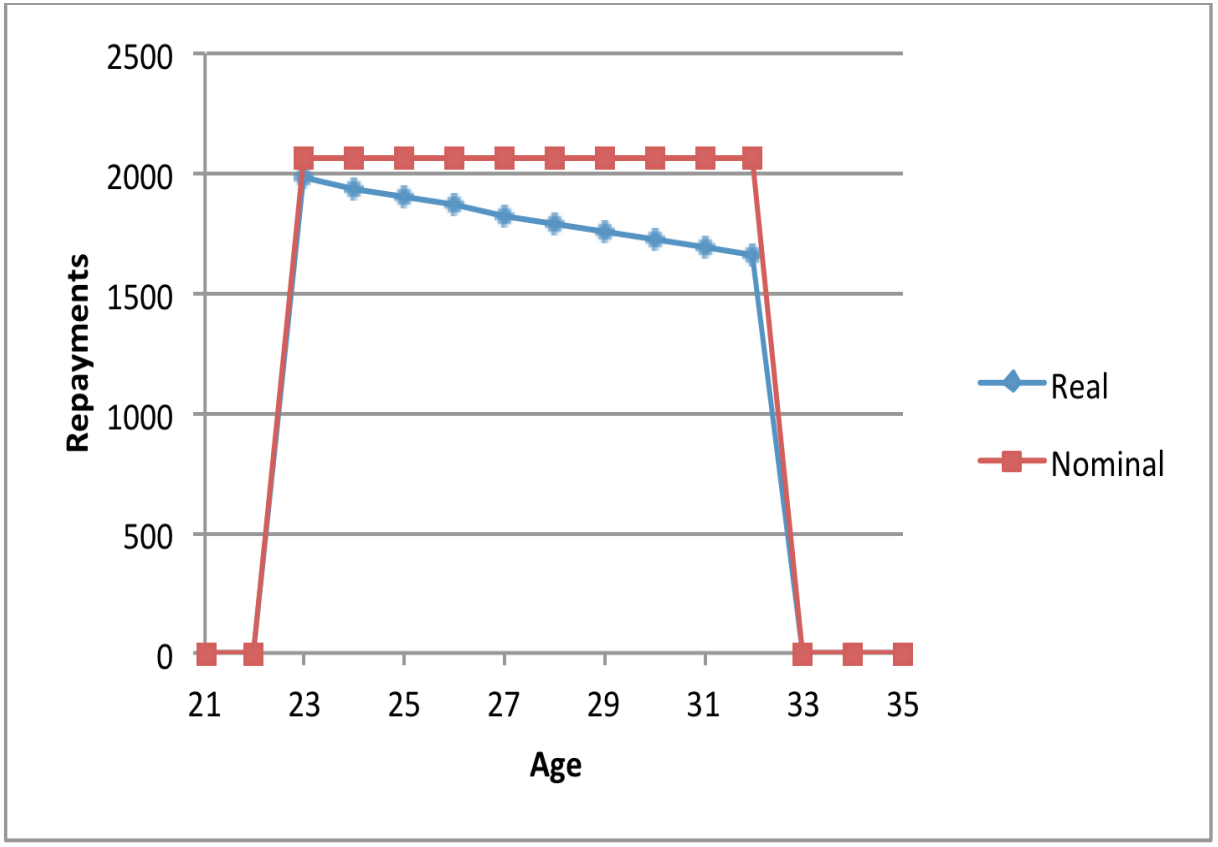
RB = 300/1000 = 0.5

(v) Repayment Burden Calculations: Method

- The use of a hypothetical graduate experience (enroll at age 18, graduate age 22)
- Illustrating calculations of the numerator: hypothetical or actual loan repayment obligations
- Estimates of the denominator by income, age and sex
- Results of most interest at the bottom parts of the graduate income distribution

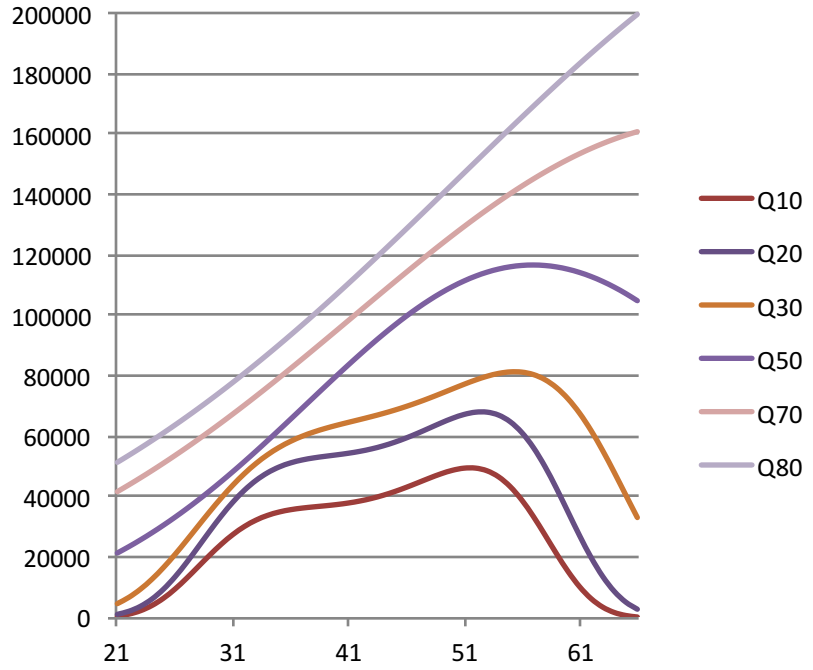
Ireland

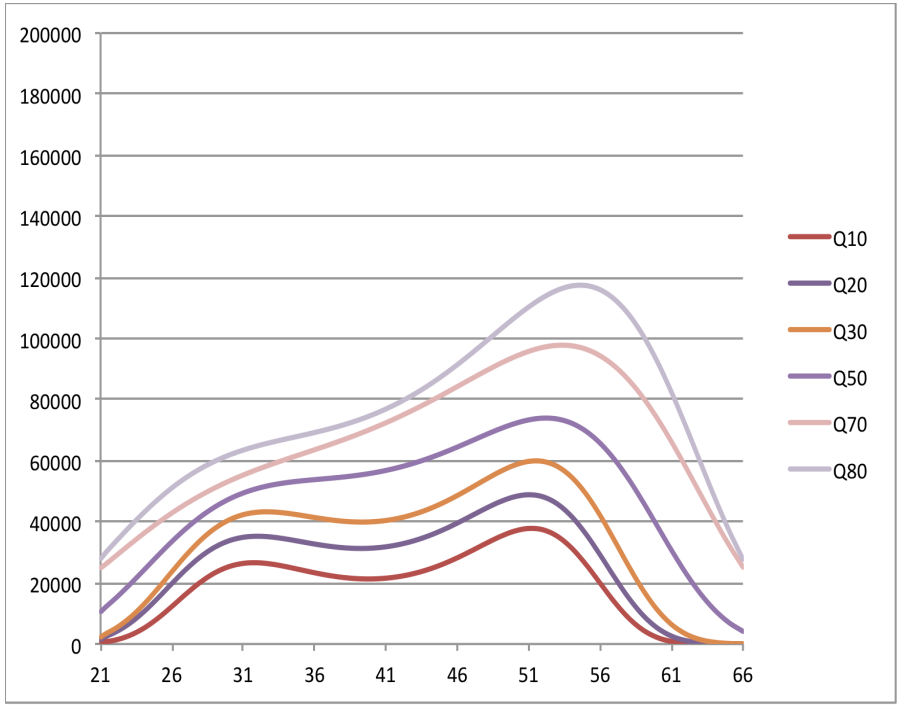
Mortgage-Loan Repayments for a €16,000 Loan Repaid Over 10 Years, Real and Nominal



Simulated Irish Life-Cycle Earning Profiles

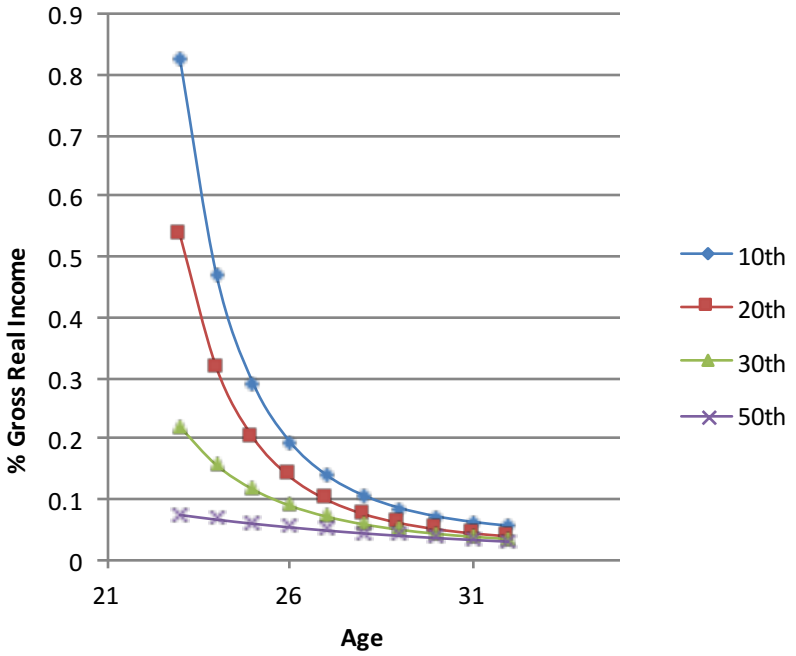
Male	Female

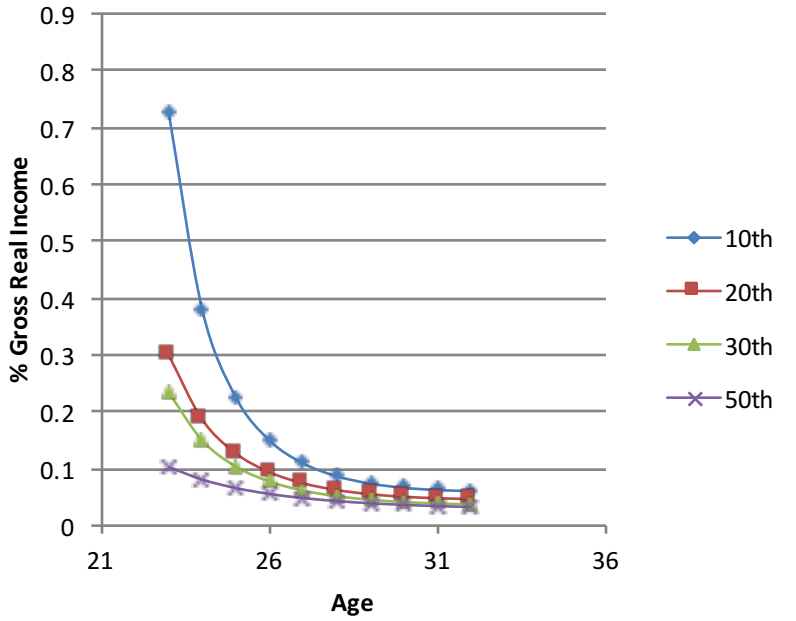




Irish RBs (various quantiles of the earnings distribution)

Male employees	Female employees

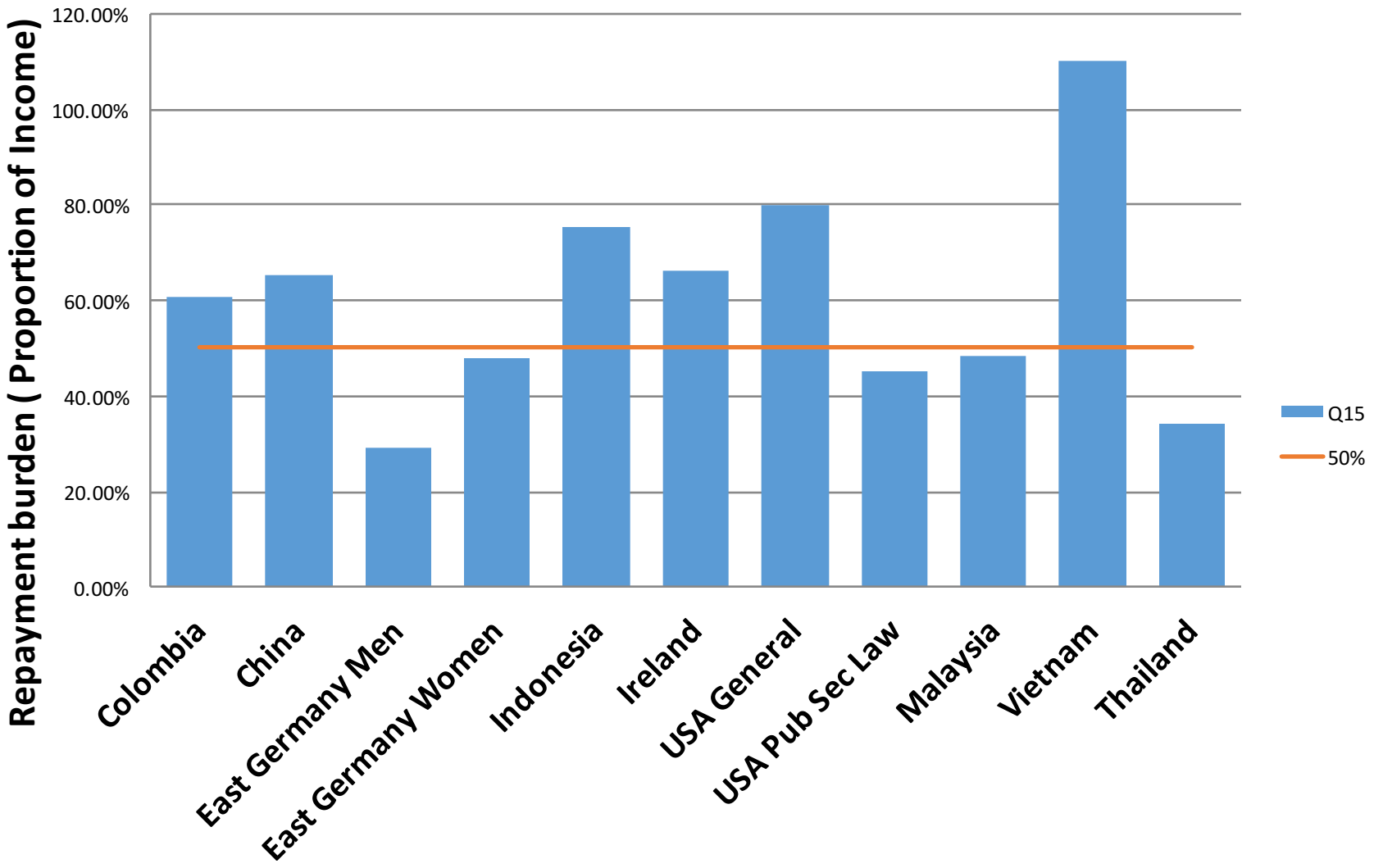




Probabilities of Excessively High RBs for Ireland
(in excess of 18 per cent of gross income)

	Years After Repayment Begins				
	1	3	5	7	9
Females	0.67	0.27	0.25	0.14	0.11
Males	0.70	0.43	0.28	0.15	0.13

RBs for Bottom 15 percent of Graduate Incomes: Various countries



Repayment Burden Calculations (bottom 15% of graduate incomes)

(i) Thailand males: 28%; Thailand females: 30%

(ii) Colombian males: 75%; Colombian females: 85%

(iii) Vietnam males: 74%; Vietnam females: 78%

(iv) US males: 27%; US females: 28%

(v) German males: 63%; German females: 69%.

(vi) Indonesian males: 84%; Indonesian females: 92%

Default rates from TBRL (percent)

Thailand: 55-70

US: 25-35*

Malaysia: 45-50

Columbia: 15-40*

Philippines: >80

* Includes delinquency

Critical ICL point: with ICL RBs are a maximum of 10 percent for all graduates

Maximum ICL RBs (percent):

Australia = 10

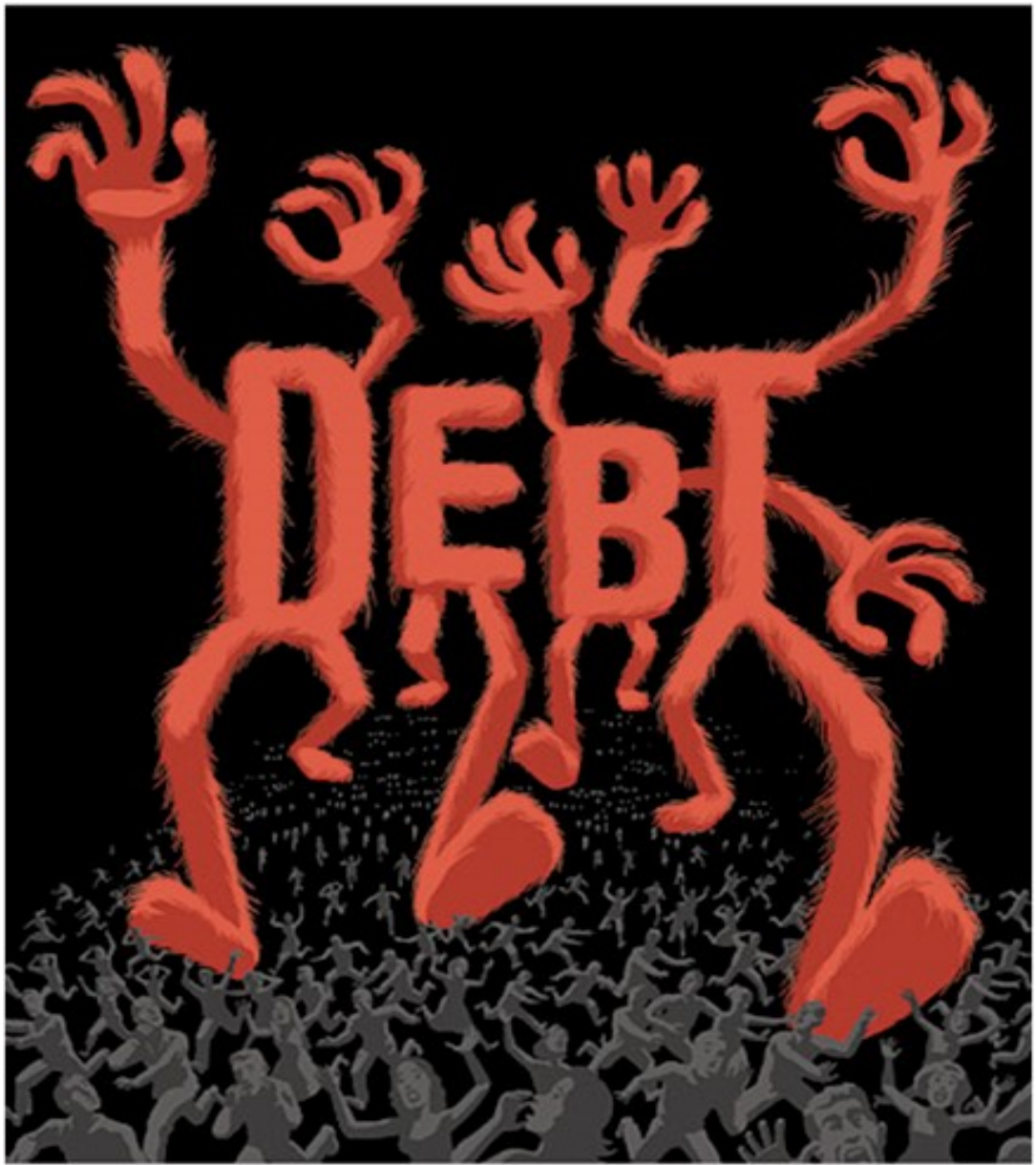
England = 9

New Zealand = 10

Hungary = 6

South Korea = 10

TBRL



ICL

RB Country Specific Research

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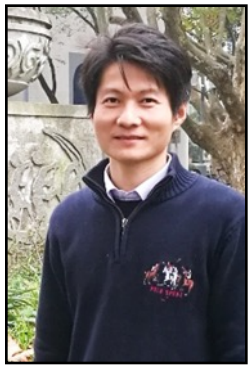

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Thank You