EDUCATIONAL LOAN REPAYMENT: THE IMPLICATIONS ON INDIVIDUAL DECISIONS

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ABSTRACT

On average, RM5 billion required each year to support continuously new and existing educational loan borrowers. Continuous effort was taken in order to keep the repayment high so that educational loans can continuously been given to needy students to help them pursue their higher education. Repayments of educational loan from those who had graduated are very important to ensure the next generation of students to be benefit from the fund. The collection of repayment has possible spillover effects on other life circumstances of an individual such as occupational, health, marriage, home/assets ownership and so on. The objective of this study is to explore the constrained decisions taken by employed graduates in Malaysia who had made the repayment timely. The study also reviews the previous researches to identify the constrained individual decisions due to student loan repayment. Both literature and methodological aspects related measurement was studied. This review may raise novel questions for further research related to student loan debt and the ongoing implications on repaying borrowers.

Field of Research: Educational loan, loan repayment and loan default

1. Introduction
Loans are cash been lend to a borrower temporarily based on an agreement whereas the cash has to be returned with the interest rate charged with reference to the agreed terms and conditions. The loan been borrowed from commercial banks usually used for personal reasons. An educational loan (EL) is referred to a loan offered to students to support their educational expenses such as tuition fees, accommodation, books and so forth. This loan is usually given to students who need financial assistance to fund their higher education (HE).

Same as commercial loans, EL are also need to be paid back upon completion of their education. ELs are revolving fund in which the fund needs to be continuously available without any fiscal year limitation. For that, the EL borrowers need to make the repayment upon the end of the grace period so that the respective organization can replenish the repaid money to fund the future needy borrowers. The number of students who are expecting for EL has increased (Han, Kang & Jun, 2015).

National Higher Education Fund Corporation or merely known as PTPTN is mandated to fund the students enrolled in HE since 1st July 1997. It is a semi-autonomous organization under the authority of the MOHE and guided by the National Higher Education Fund Act (Act 566) (Ismail & Serguieva, 2008). As of May 2015, RM2.5 million of loan application been approved and RM56.4 billion had spent...
to fund HE. Around RM8 billion had been collected from the loan repayment. The Chairman, Datuk Shamsul Anuar Nasarah said in a press meet that PTPTN in need of RM25 billion by 2020 to fund the students’ HE cost (25th May 2015, Harian Metro).

However, PTPTN ran out of fund since 2003 due to lack of repayment. They had borrowed RM2 billion from the Employees’ Provident Fund (EPF) under the Ministry of Finance, as a substitute resource in 2003 and 2004. EPF refused to borrow RM2 billion again in 2005 (Bakar et al., 2006). This had imposed a pressure on PTPTN to recover the EL at any cost. PTPTN had strategize their loan recovery through issuing summonses, sending legal notices, decreasing service cost from 3 per cent to 1 per cent, imposing travel ban, auto-deduction from salary and so on (InfoPTPTN). Again the loan repayment was not satisfactory. Thus, PTPTN had taken much serious steps to recover the EL. In June 2016, PTPTN declared that they going to list the PTPTN loan defaulters name under Credit Reference Information System (CCRIS). Out of 2.5 million defaulters, 1.3 million defaulters been listed under CCRIS. This has gradually improved the EL repayment (Kosmo, 22nd Aug 2016). If a person’s name listed under CCRIS, they cannot get housing or a car loan. Hypothetically, the EL borrowers have to make the repayment accordingly in order to avoid future problems. The question arises here is, what are the implications of EL repayment unto the borrowers’ decisions related to life transitions?

2. Problem Statement
The very first protest against PTPTN held in May 2012. Thereupon, a debate been organized between Mohd Rafizi Ramli from opponent party and Khairy Jamaluddin representing the ruling party. In that debate Mohd Rafizi Ramli had affirmed that the national and global economy are growing but not the income of people. He quoted Paul Krugmen who is a professional economist from New York,

“We have to look at generation of graduates who tied up or burdened with their EL debt. This will affect the economy of the nation as this might constrain the economic and purchasing power of the graduates which will retard the economic growth in long run”

It is an undeniable fact that EL has possible spillover effects on other life circumstances of an individual. This is because the economic and purchasing power of the graduates constrained as they start their EL repayment. Boston Globe (1987) as cited by Honan (1990) had stated that EL is ‘burdensome’ and ‘unmanageable’. In the case of America, the EL was introduced much earlier than Malaysia. The Perkin Loans was first given in 1965, followed by other forms of EL subsequently. In Malaysia the EL was first introduced in 1997. Thus, the history might be repeated here as well.

The theory of consumer behavior argues that consumers allocate their limited income for available goods and services so that they can maximize their utility. It is also believed that income of one should be divided into three, which are spending, savings and investment. However, the EL borrowers are greatly in dilemma as they graduating with EL debt and an ongoing liability even before they secure a job for survival. This leads towards loss of ability and eligibility to do well economically. In addition, the fresh graduates cannot demand high pay until they establish themselves. The total income of one after deducting basic living cost is even smaller. From the residual income, EL borrowers have to manage their liabilities and consumption. This phenomenon increases the household indebtedness which may slowdown the economic activity gradually. There is a relationship between household debt and future household spending (Getter, 2003). Thus, the graduates forced to make adjustments into their consumption and life style which impacts them eventually as time flies. These adjustments might significantly associate with individual decisions related to life transitions. However, there are no empirical evidences to support this in Malaysian context.

3. Implication on Individual Decisions
**Constraint Income and Spending**

Getter (2003) had contended that there is a relationship between household debt and consumption. He added that house hold debt constraints the future spending of the households as well. The findings of Pew Social and Demographical research by Fry (2012) revealed that EL repayment as a rising installment debt among most household. Innescu & Simpson (2016) added that the EL borrowers are also much constraint financially as they have to deal with unexpected additional costs such as wage garnishment, attorney fees, withholding of tax refund and some other similar issues. Heavy debt burden is placed in the shoulders of the EL borrowers the soon they start their EL repayment (Nguyen, 2012). Initially, mortgage loans, credit cards and auto loans were the main causes of highest household debt (Dynarski, 2015), EL debt is slowly rising as a factor results in household debt (Fry, 2012).

It is undeniable fact that consumption and spending pattern of an EL borrower change upon graduation (Gicheva, 2016). This is due to the situation where a large proportion of the borrower’s salary is used to pay the loan repayment; the borrowers are left with a small amount of disposable income. This impacts the borrowers’ consumption negatively. The borrowers are condemned to control his/her additional consumption, even if it is prominent (Li, 2013). She added that the borrowers with EL debt also face loss in income and investment such as stock market. The situation can go worst as in the future if the borrowers fight with other financial constraints as their access to credit market is limited (ibid).

Looking into American scenario, the wages and social security benefits payment of students with debt will be garnished. They are also will be considered as not eligible for any further financial aid in relation with deferment, damaged credit history, and to an extent they might be prohibited from joining the Army Force (FinAid, 2012) as cited by (Webber & Rodger, 2014).

**Assets Possession**

Assets possession is an important indicator that reflects socio-economic status of a person. This includes the behavior of one in regard to savings, investments, ability to obtain credit, and assets possessions. There were no direct relationship been found between EL debt and home ownership and other responsibilities that related with adulthood (Chiteji, 2007) as cited by (Rothstein & Rouse, 2010). However, there is an indirect relationship.

**Occupational choice**

The students who take-up EL are graduating with EL debt. Thus, when they look for a job, they choose to have jobs that give them high salary. They are willing to tolerate with lower levels job related facilities (Rothstein & Rouse, 2010). Li (2013) has different opinion as she stated that the students may choose to have lower paying career to reduce the probability of EL debt.

**Marital choice**

There were no direct relationship been found between EL debt and marriage decision and home ownership and other responsibilities that related with adulthood (Chiteji, 2007) as cited by (Rothstein & Rouse, 2010).

However, there is an indirect relationship particularly with marriage decision and EL debt. Gicheva (2016) had added that there are certain amount wealth accumulation is required prior to starting a family. The more the EL debt is, the low the chances for the borrowers to accumulate that buffer amount. Moreover, marriage require large amount of money which can drag the borrowers into severe debt burden or he/she ineligible to borrow more. In fact, the more the students left with debt burden the high the risk is for them to cram down (Li, 2013). Cram down referring to the situation of bankruptcy, or similar situation, the debt will be re-organized.

**Political participation and activism**
A research conducted by Ozymy (2012) entitled “The Poverty of Participation: Self-interest, Student Loans and Student Activism” had revealed an unexpected dimension of EL. He stated that EL borrowers from lower-income brackets much likely to participate in politics due the concern they have on EL compared to those from upper-income brackets. He added that the burden that one has to get through in order to repayment EL, drop in income due to loan repayment, and drive the borrowers from lower-income brackets to participate in politics.

The researcher has a special concern on this perspective as in Malaysia numerous times student activist had came up ideology such as free education, demolishment of PTPTN as a loan, PTPTN as scholarship and so on since 2012. Mohd Rafizi Ramli, who was the PKR strategy director at that point of time, participated in the debate on 22nd May 2012 against Dato Khairi Jamaluddin. The whole context of the debate was about the applicability of ‘free education’. This debate was arranged immediately after a students’ protest in Dataran Merdeka fighting for PTPTN demolishment and conversion into scholarship.

Therefore, EL had indirectly led towards students’ political participation and activism. However, at this point of time, this might be too early to discuss this factor.

4. Conceptual Framework

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5. Methodology

Sample and Data Collection Method
Quantitative and qualitative approaches will be employed in this research. The major part of data collection will be based on quantitative approach. This is because the research population includes the EL borrowers who had started their repayment. The respondents should fulfill the eligibility criteria which had been decided prior to data collection. The respondents must have started repaying their EL from 2014 onwards. Thus, the implications of repaying the EL can be captured accordingly. The researcher also had made a few assumptions prior to the data collections. It is assumed that all the respondents are homogenous and the responses from the respondents are solemnly based on their EL repaying experience and all the other factors are ceteris paribus. As the data collection involve large number of sample size, quantitative approach will be much suitable. Face-to-face interviews will be carried in the preliminary stages of the research to explore further information, elaboration, and clarification of responses (Creswell, 2002). It is very challenging to decide on the sample size as the repaying EL borrowers are not concentrated geographically. Thus, the sample size was decided referring to the general rule of thumb as stated by Garson (2009). He contended that data from at least 150 cases is deemed comfortable, 300 considered as very good and 500 as excellent. Therefore, 300 respondents were chosen to be a part of this research. Questionnaires will be distributed in order to achieve the generalization (Saunders, et al., 2005). Non-probability snow-ball sampling techniques will be employed. Initial pilot test will be carried to ascertain cronbach alpha, normality test, principal factor
analysis for collinearity. Based on the normality test, Anova and t-test will be used if the data distributed normally, M-W test will be used if the data distributed not normally. Structural Equation Modeling (SEM) will be employed to test the model design.

6. Conclusion
There are many researches had been conducted to explore the factors underlying behind EL debt. And potential impacts of EL on repaying EL borrowers specifically focused into their economic performance worldwide. However, the implications of EL debt particularly to those who are repaying not been explored widely in Malaysia context. This is an essential and a timely research in the present situation. Many adults are delaying their decisions related to their life transitions such as marriage, homeownership, occupational choice and so forth. The extent EL repayment contributes towards this phenomenon need to be studied in order to propose for an affirmative action and policy.

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