8 practical things we have learned about student loans

Kiatanantha Lounkaew

Crawford School of Public Policy
Australian National University

Research Center
Dhurakij Pundit University
1. SUBSIDY IS EVERYWHERE
Subsidies of selected student loan schemes in Asia (in %)
2. THE 8% RULE
Repayment burdens: How much is too much?

• A rough yardstick, used in several countries, is that loan repayments should not exceed 8 to 10% of a graduate’s income (Woodhall, 1987)

• Salmi (2003) notes that in Venezuela the government loan agency “…has established 15% as the ceiling for monthly repayments.”
Repayment burdens:
The 8-percent rule

• The most comprehensive analysis is in Baum and Schwartz (2006)

• It refers to the so-called “8 percent rule”, a standard suggesting that

  “…students should not devote more than 8% of their gross incomes to repayment of student loans.”
Repayment burdens: Lessons from selected ICLs

Maximum repayment as % of income

- 9% (UK)
- 8% (Australia)
- 6%-8% (USA)

(IBR only)
3. BAD ADMINISTRATION OF LOAN IS COSTLY-GOOD COLLECTION IS THE KEY
Administrative costs: International comparison

Let’s take 2% as a benchmark
Administrative costs:
International comparison

Let’s take 2% as a benchmark

- U.S.A.: 2%
- China: 2%
- South Korea: 2%
- Philippines: 3%
- Thailand: 3% (and rising)

Too much?
Administrative costs of the SLF: High (>2%) and rising

More borrowers

Rising administrative cost

2.0%
2.2%
3.0%
3.2%

Expected to reach 4.2 to 4.5% in 2014

2% benchmark

2005 2007 2009 2011
4. THERE ARE GOOD ICLS AND THERE ARE BAD ICLS
Analyzing ICL in Thailand: TICAL vs. “Illustrative Repayment” parameters

<table>
<thead>
<tr>
<th>Annual income (Baht)</th>
<th>Collection rate (% of income)</th>
<th>Annual income (Baht)</th>
<th>Collection rate (% of income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 192,000</td>
<td>0%</td>
<td>Less than 100,000</td>
<td>0%</td>
</tr>
<tr>
<td>192,000-360,000</td>
<td>5%</td>
<td>100,001-110,000</td>
<td>3%</td>
</tr>
<tr>
<td>360,001-840,000</td>
<td>8%</td>
<td>110,001-120,000</td>
<td>4%</td>
</tr>
<tr>
<td>Higher than 840,000</td>
<td>12%</td>
<td>120,001-130,000</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Higher than 130,000</td>
<td>6%</td>
</tr>
</tbody>
</table>

1 Euro is approximately 45 Bath
Implicit subsidies compared

![Bar chart showing subsidies and administrative cost]

- **SLF**: 72%
- **TICAL**: 48%
- **Illustrative**: 10%

Administrative cost
5. THRESHOLD, WHERE TO BEGIN?
Two complementary approaches

Threshold

Minimum threshold
150 to 175% of poverty line

Maximum threshold
Consumption premium

Applied **IRR techniques** to life-time consumption of university graduate vs. high school graduate
6. SUSTAINABILITY ISSUES
Challenges: Sustainability + Equity

Financial sustainability

- #borrowers
- Defaults & administrative capacity
- Quality of universities
- Labor market
7. EXECUTION COUNTS
Ready-Set-Go!

Empirical supports of the case for student loans

Policy advocacy process

Set the right perception

Go ahead

Implementation

Ready the society

Serious, well-grounded works are seriously needed
8. EXAMPLE WHEN BAD POLITICS GETS IN THE WAY OF GOOD ECONOMICS
Thailand was in need of private contribution

• Fiscal projection indicated rising financial support for higher education sector
  – More population
  – Rising cost

• More money to higher education would mean less money for universal health coverage and social security provision
Important Features of the SLF

- Mean-tested
- Annual repayment is in % of total loan
- 6-year interest grace period
- 2-year repayment grace period
- 1% nominal interest rate (-3% real interest)
- Maximum loan size varies by discipline+fixed monthly allowances
Repayment burdens: SLF

Consumption premium is about 8%.

- Typical graduates: 6%-8%
- Graduates at the bottom: >15%
Disaggregating actual cohort default rates (% of cohort)

- Repayment burdens + remittances: 45% = 35% + 10%
- Default on purpose: 18%

Total default: 65% (can be up to 75-80%)

Administrative capacity?

$100 \times 0.28 \times 0.35 = $9.8
Heed the warning please!

**Facts and trend**

- This year there are 635,200 existing borrowers
- There will be another 230,000 new borrowers

**Potential) reality as of NOW**

- About 142,000 existing borrowers will not receive the loan
- No new borrowers
THANK YOU