

Higher Education Finance & Student Loans Scheme Options for Romania

Why do governments need to be involved in student loan programs?

- High risk of default:
 - Absence of collateral that can be recovered in event of non-payment.
 - Long wait to repayment period.
 - Mobile population
- Risk calls for a governmental guarantee or for the government to be the lender.

Degree of Government Involvement

1. 100 percent public (government plays all roles)
2. Outsourced with core public management (government outsources administration, collection, etc.)
3. Public guarantee to private banks

Student loan objectives

1. Expand participation (improving equity and access for the poor or otherwise marginalized groups)
2. Generate revenue
3. Give students financial independence
4. Support specific governmental policies
5. Motivate students to work harder

1. Expand participation by allowing students to defer the costs of higher education until they are able to pay

- Student loans address the upfront financial constraints of students and are cheaper than an outright grants.
- US, Canada, Chile

2. Generate more revenue for universities (via cost sharing)

- Student loans can allow (more) students to contribute to the costs of higher education and provide revenue to higher education that, in its absence, would presumably not be there.
- US, Canada, UK, Australia, Hungary, China

3. Give students more financial independence

- By providing loans to cover living costs, students have more resources to establish their own households
- Sweden, Norway, Denmark

4. Support specific governmental policies

- Student loan schemes can influence student behavior in terms of how much they study, what they study and where they live after graduation.
- South Africa, US, New Zealand

5. Motivate students to work harder

- By making them responsible for retaining loan
- By promising loan forgiveness in the event of successful program completion

International Experience

Three Principles for Success

1. Define your goals upfront.
2. Make student loans scheme part of a comprehensive approach to finance:
 - a) Realistic assessment of future trajectories of (1) costs and (2) available public revenues
 - b) Equitable policy of student fees (and periodic non-political increases in such fees)
 - c) Policy of other student fees and subsidies
 - d) Policy and mechanism for means-testing
 - e) Plans for public sector growth
 - f) Plans for private sector growth

3. Pay equal attention to:

- design (build in minimal interest subsidization and real theoretical recovery).
- execution: minimizing non-repayments / defaults.

Critical Questions / Issues for Student Loan Schemes [7]

1. Loan objectives
2. To whom should student loans be available:
 - All students
 - State sponsored students
 - Fee paying students (public and private)
 - Needy students
 - Undergraduate students
 - Master's students
 - PhD students
 - Students pursuing degrees in specific areas

(Critical Issue / Question continued)

3. If loans, are they to pay for:

- Tuition fees only
- Living expenses only
- Both

(Critical Issue / Question continued)

4. If there are to be loans, how subsidized (by the taxpayer) should they be?

- a) Not at all (market sets rate, and rations credit by risk)
- b) Minimally (government's borrowing rate),
- c) Moderately subsidized – inflation, or zero real rate
- d) Heavily subsidized (fixed low rate)

(Critical Issue / Question continued)

5. Who has to pay the loan in case of default:

- a) Co-signatories (e.g. parents, relatives)
- b) Cosignatory, if available, or government if not available
- c) The government
- d) Agency in charge of loan scheme (via risk premium)
- e) Universities

(Critical Issue / Question continued)

6. If there are to be loans or some form of *deferred* contributions, how is the basic repayment obligation to be expressed?

- a) a fixed schedule of repayments at a rate of interest & repayment period
- b) some percent of lifetime earnings or income of the borrower (i.e. income contingent) until repay at rate of interest)
- c) On a fixed schedule with options for deferring repayment in certain circumstances

(Critical Issue / Question continued)

7. Should there be loan forgiveness options:

- a) Only in extreme circumstances
- b) Based on academic achievement
- c) Based on graduates complying with a government policy

These Questions / Issues:

- Must be answered
- May be answered in a variety of ways—
with important consequences
- The answers will define the tuition fee and
loan policy
- The answers will also define the cost to
government

Technical Observations

1. A loan scheme will never become self-sustainable.
2. Loan schemes require planning. Should have all questions answered before start of program (e.g. tuition fees, rationing, etc.)

(observations continued):

3. Must have legal bases (e.g. wage attachment, co-signatory obligations, access to tax records, employer obligations, visa and passport controls).
4. There will not be enough money: loans will have to be rationed on some basis.

(observations continued):

5. Loans must take into account the 3-legged stool: (1) design, (2) execution, (3) tapping private capital.
6. Minimizing defaults begins at origination and extends through completion of studies
7. Need electronic records capability.
8. Be clear about borrower obligations: avoid euphemisms & obfuscations.
10. Collection by employer good for some debts also need regular monthly collection capability.