

# Higher Education Finance & Student Loans Scheme Options for Romania

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# International Comparative Higher Education Finance and Accessibility

1. Worldwide trends in university finance
2. Cost-Sharing: fact and policy
3. Shift of costs government (taxpayers) to parents and students
4. Tuition fee policies
5. Means-tested Grants
6. Student loan schemes
7. All in the context of politics & ideologies

# Conferences and Consultancies of ICHEFA Project (selected)

- Buffalo, 1999
- Dar es Salaam, Tanzania 2002
- Prague, Czech Republic 2003 (East & Central Europe)
- Moscow, Russia 2004
- Nairobi , Kenya 2005 & 2006
- Wuhan, China 2005
- Rabat, Morocco 2006
- Portorož, Slovenia 2007
- Arusha, Tanzania 2008 (East Africa)
- Kampala, Uganda 2008
- Bucharest, Romania 2008

# As I see Romania... [10]

1. Participant in Bologna process: B-M-D in place
2. Growing demand for higher education
3. Emerging private sector
4. Limited capacity for additional taxes and competing needs for any additional revenue
5. Projections of diverging trajectories of higher education costs & government revenues
6. Extensive indirect subsidization

6. Public sector dual track tuition fee policy
7. Growing private fee-dependent system
8. Cost of student maintenance plus fees already high for many families
9. Political & ideological resistance to comprehensive approach (i.e. tuition fees)
10. Need a student loan scheme

# Problems with student loan schemes in Eastern and Central Europe

1. No Romanian experience or record of success
2. Few similarly situated models
3. Absence of widespread culture of credit
4. Uncertain ability to tap savings in capital market: government is the only lender
5. Many loans schemes elsewhere have failed (little or no recovery)

## Cause for Hope: There have been reasons for the failures [8]

1. Poor design: insufficient rate of interest
2. Misrepresentation: failure to stress repayment obligation & consequence of default
3. Failure to collect
4. Insufficient electronic database
5. Insufficient mechanism for hardship cases
6. Ineffective means-testing

7. Insufficient legal framework regarding:

- ✓ Penalties for (unexcused) default
- ✓ Responsibility of co-signatories
- ✓ responsibility of employers
- ✓ Responsibility of tax authority
- ✓ Ability to attach wages
- ✓ Obligation in event of travel abroad

8. High risk thus insufficient private capital

# Student Loans Can Work: Two Principles

1. Student loans scheme should be 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 tuition 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

2. Know your goals. Student loan schemes can have very different objective and priorities—  
e.g.:
- a) How important is the goal of some true cost-sharing: that is, real cost recovery?  
..... as opposed to:
  - b) the (political) goal of putting money in the hands of all or most students?

- c) Or to support the fee-paying track in the public universities?
- d) Or to support students attending private colleges and universities?
- e) Or to secure some initial (i.e. within 5 years) success: i.e. demonstrable loan recovery so that private capital can be accessed?

(Implications of priorities)  
Does the government want:

- Maximum political acceptability ... or to stress the fact of tuition and the repayment obligation?
- Some loan money to most students ... or truly sufficient loan money to only those with both merit and high need?
- Maximum numbers of entering students assisted with loans ... or securing early “success” with e.g. advanced low risk students?

## The three legs of the stool of successful student loan schemes:

- Design: building in minimal interest subsidization and real theoretical recovery.
- Execution: minimizing non-repayments / defaults.
- Tapping private capital: lessening the annual demands on Governments operating budget and treating students loans as real assets rather than as expenditures

# Critical Questions / Issues for Student Loan Schemes [9]

1. If there is to be a loan scheme, how should availability be rationed:
  - a) By sector (public private, univ. colleges, etc)
  - b) By financial need (or available to all)
  - c) By level (undergraduate, masters, etc.)
  - d) Not rationed at all ( just make the loan amounts smaller)

## (Critical Issue / Question continued)

2. If loans, are they to pay for:
  - Tuition fees only
  - Tuition fees and some living expenses

## (Critical Issue / Question continued)

3. Are loans to be disbursed:
  - a) To students (to pay fees and some living expenses)
  - b) To Institutions (to pay tuition fees)
  - c) Not disbursed at all, but merely held on government books as “future repayables” (assets)

(Critical Issue / Question continued)

4. 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) *hybrid* fixed schedule with maximum payment as some % of income?

(Critical Issue / Question continued)

5. If there are to be generally available loans, who/what is to bear the risk of non repayment-- as among:

- a) Banks
- b) Co-signatories (e.g. parents, relatives)
- c) Universities
- d) Other borrowers (that is, mutualized)
- e) The government
- f) Donor or foundation (WB, IFC, etc)
- g) Life & health insurers

(Critical Issue / Question continued)

6. 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) More subsidized – inflation, or zero real rate
  - d) Heavily subsidized (fixed low rate)

(Critical Issue / Question continued)

7. If there are to be generally available loans, how should payments be made:
  - a) By borrower (e.g. monthly)
  - b) By employer (deduction from wage)
  - c) Base, or default, obligation by borrower with employer payment as option

## (Critical Issue / Question continued)

8. How to make repayments manageable:
  - a) Low interest rate (but lose present value)
  - b) Long repayment period
  - c) Long *Grace* period
  - d) Provision for extension in event of unemployment & hardship
  - e) Provision for forgiveness in event of low lifetime earnings
  - f) Income contingent obligations ??

(Critical Issue / Question continued)

## 9. How to tap Private capital?

- a) Banks making loans with governmental guarantees
- b) Public student loan agency making loans and selling loans to the capital market
- c) Public student loan agency making the loans and selling its paper in the capital market
- d) No private capital: just public budget outlays

# 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

# Final Observations [16]

1. Student loans are essential to cost sharing.
2. Successful student loans schemes possible (i.e. can recover and so diversify revenue).
3. A loan scheme is costly at best annually and increasingly (will never become revolving).
4. Student loans are conceptually complicated and widely misunderstood.
5. Student loan schemes are technically difficult.

(Final observations continued):

6. Loan schemes require planning. Must have all questions answered before start of program (e.g. tuition fees, rationing, etc.)
7. Must have legal bases (e.g. wage attachment, co-signatory obligations, access to tax records, employer obligations, visa and passport controls.
8. There will not be enough money: loans will have to be rationed on some basis.

## (Final observations continued):

9. Remember the 3-legged stool: (1) design, (2) execution, (3) tapping private capital.
10. Minimizing defaults begins at origination.
11. Need electronic records capability.
12. Be clear about borrower obligations: avoid euphemisms & obfuscations.
13. Collection by employer good for some debts also need regular monthly collection capability.

(Final observations continued):

14. Manageability of debt is a function of many features, most of them compatible with fixed schedule repayment obligations.
15. Income contingent repayment obligations are an option: not “better” for all students or loan schemes.
16. De-politicize the student loan scheme as much as possible.

# Finally, political realities:

The solution to the underlying austerity of higher education must not be seen as being solved entirely “on the backs of” students. Thus ...

1. Universities must be seen as trimming costs.
2. Governments (politicians) must be seen as more efficient (and less corruptible).
3. Students must get something in terms of: (1) better quality, or (2) more access.

# Calculating the Recovery: Dependent on:

- Rate of interest in-school
- Average number in-school years
- Rate of interest grace period
- Number of years of “grace”
- Rate of interest repayment years
- Average length of repayment period

- Discount rate
- Estimated default rate
- Estimated repayment forgiveness (if any)
- Estimated cost of servicing and collecting as ratio of outstanding balance

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Subsidized interest in-school & grace period	Partially subsidized interest in-school & grace period	Subsidized interest in-school & grace period	Partially subsidized interest in-school & grace period
Average In-school period (years)	3	3	3	3
Average grace period (years)	2	2	2	2
Interest rate (in-school & grace)	0	3%	0	3%
Interest rate (repayment period)	6.50%	6.50%	8.50%	6.50%
Repayment Years	10	10	10	15
Discount Rate	6.50%	6.50%	8.50%	8.5
Amount of Loan	1,000	1000	1000	1000
Default Rate	30%	30%	30%	30%
Loan amount initiation of repayment minus defaults	700	(859)	700	(859)
Future Value			(1,283)	2,210
Present Value of Repayments	(511)	627	466	(432)
Effective (implicit) Subsidy (loan minus PV of repayments)	489	373	534	568
Percent Recovery	51%	63%	47%	43%

# Examples of Student Loan Schemes

- Canada
- South Africa
- Hungary
- Sweden
- Japan
- Netherlands