



CHAPTERFOUR

Student Loan Scheme - State of the Play

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4.0 Introduction

This chapter has information about:

- the students borrowing through the loan scheme in 2006 and the amounts they borrowed
- borrowers and their loan balances with Inland Revenue on 30 June 2007.

It looks at the characteristics of the groups who have used the loan scheme as well as at changes over time.

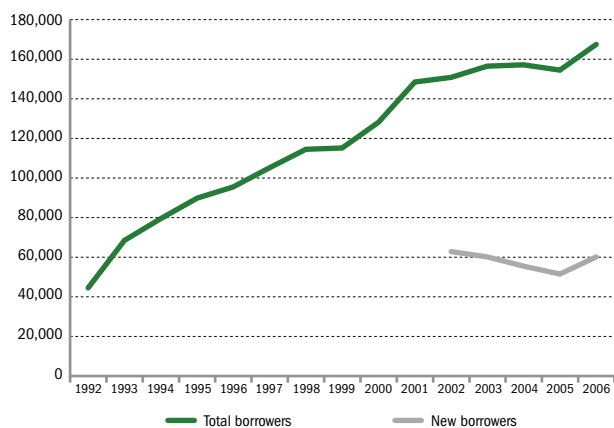
The information on borrowing is largely drawn from the Ministry of Social Development, while Inland Revenue has supplied data on the repayments and loan balances of all borrowers, including those who have left study.

4.1 Students borrowing

In 2006, 167,420 students borrowed under the loan scheme, an increase of 8.4 percent on the 154,411 borrowers in 2005. This increase is in large part due to 2006 being the year in which interest-free loans were introduced. It means that 5.2 percent of the New Zealand population aged 15 and over borrowed from the loan scheme in 2006.

Uptake of student loans in 2006

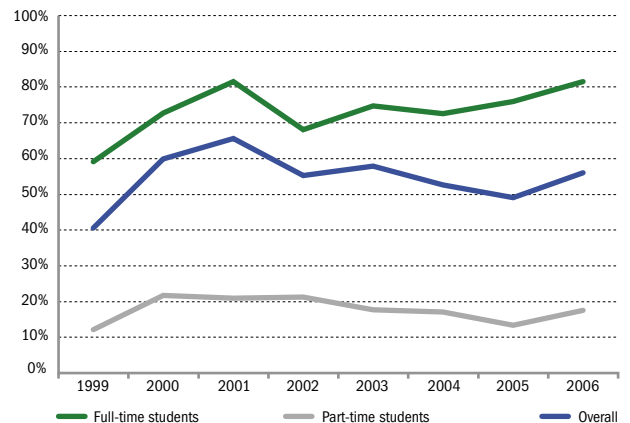
Figure 11 Student loan borrowers in each academic year 1992-2006 and new borrowers 2002-2006



Source: Ministry of Education and Ministry of Social Development.

The student loan uptake rate is the proportion of students eligible to borrow who actually do so. In 2006, the uptake rate was 56 percent. This compares with 49 percent in 2005, 58 percent in 2003, 66 percent in 2001, and 41 percent in 1999. The changes in uptake rates are a consequence of changes to loan policy. The increase between 1999 and 2001 was due to the introduction of 'no interest while studying', and the increase in 2006 reflects the impact of the interest-free loan policy.

Figure 12 Student loan uptake rates 1999-2006



Note: Overall uptake rates depend on the mix of full-time and part-time borrowers.

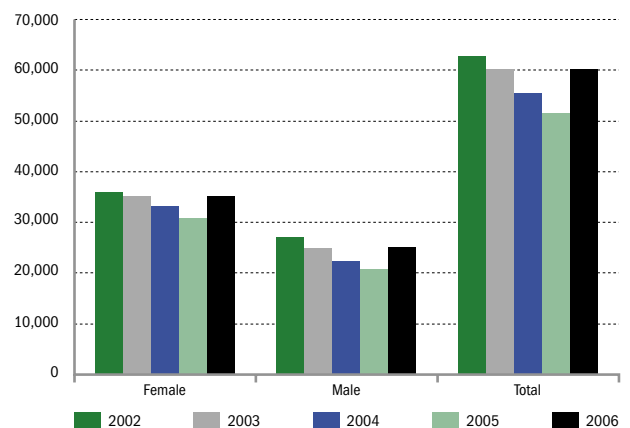
Source: Ministry of Education and Ministry of Social Development.

New borrowers

By looking at new borrowers it is possible to learn more about how the characteristics of those entering the loan scheme are changing over time.

We use the term 'new borrowers' for people entering the loan scheme for the first time in the year that the report covers. (For example, a new borrower in this report entered the scheme for the first time in 2006, and in last year's report a new borrower entered the scheme in 2005.) As it is not possible to match the records of borrowers during the 1990s to those from 2000 onwards,¹⁸ it is likely that from 2000 a small number of new borrowers did in fact previously borrow during the 1990s. Therefore, a degree of caution is needed when drawing conclusions from the following comments.

Figure 13 New borrowers by gender and total 2002-2006



Note: Data is provisional.

Source: Ministry of Social Development.

The number of new borrowers rose in 2006, reversing a trend since 2002. This rise, from 51,443 in 2005 to 60,016 in 2006, is largely due to changes to the loan scheme such as the removal of interest charges for borrowers living in New Zealand and new provisions for borrowers overseas. The increase has restored the number of new borrowers to the level recorded in 2003.

¹⁸ Due to data structure changes and the separation of source data when the loan accounts administration was transferred to the Department of Work and Income (now the Ministry of Social Development) in 2000.

Table 3 Average age of new borrowers who had not previously borrowed from StudyLink 2002-2006

Age	2002	2003	2004	2005	2006
Average	27	26	26	26	26
Median	22	22	21	20	20
Total number of new borrowers	62,763	60,131	55,379	51,443	60,016

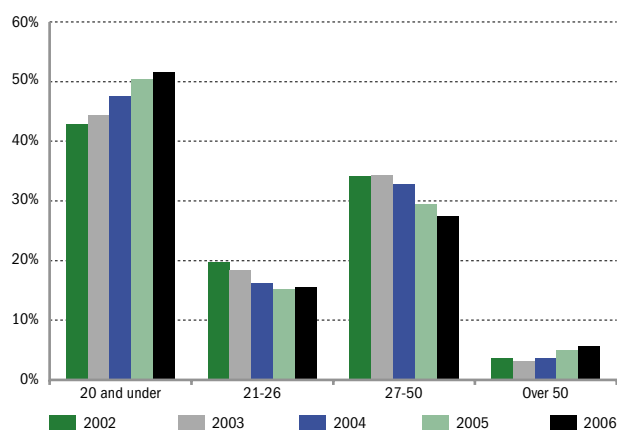
Notes:

1. These are new borrowers who had not otherwise borrowed since the Ministry of Social Development took over student loans in 2000.

2. Data is provisional.

Source: Ministry of Social Development.

Figure 14 Age of new borrowers 2002-2006



Note: Data is provisional.

Source: Ministry of Social Development.

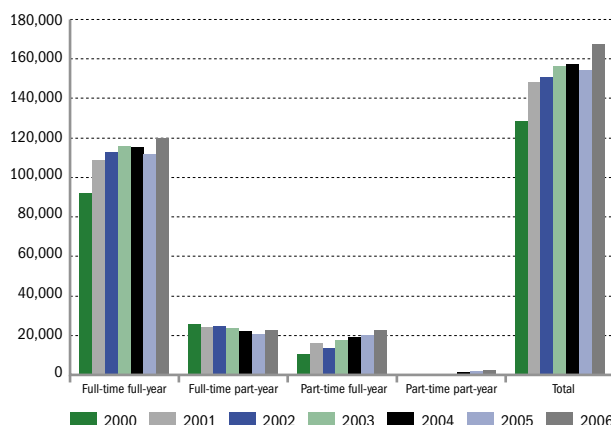
Borrower characteristics

Study status

Before 2004, loan eligibility was restricted to those studying on a full-time basis and to part-time students studying for a full year. In 2004, eligibility to borrow tuition fees was extended to include part-time, part-year students studying a course load of 0.3 equivalent full-time student units or more. Access to student loans was further extended in 2005. Those students whose study load was at least 0.25 equivalent full-time student units, but less than 0.3 equivalent full-time student units, were entitled to borrow if their course would be likely to lead to employment or contribute to the borrower's work.¹⁹

The increase in part-time enrolment continued in 2006. Approximately 55 percent of all domestic students in 2006 were enrolled on a part-time basis, compared with nearly 45 percent in 2000. Approximately 25,200 eligible part-time students (or 17.5 percent of those eligible) borrowed from the loan scheme in 2006. The proportion of eligible full-time students borrowing in 2006 was 81.5 percent.

Figure 15 Borrowers by study status 2000-2006

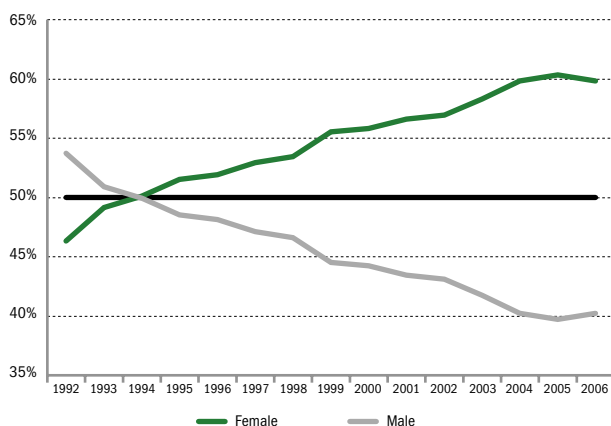


Source: Ministry of Social Development.

Gender

There are more women than men enrolled in tertiary education. In 2006, almost 54.9 percent of tertiary students were female, compared with 47.6 percent in 1994. The increase in the proportion of female students has been matched by an increase in the proportion of female borrowers. In 2006, however, there was a slight reduction in the proportion of female borrowers (down 0.5 percent) with a corresponding small increase in the proportion of male borrowers (up 0.5 percent).

Figure 16 Percentage of borrowers by gender 1992-2006



Note: The Y-axis does not start at zero.

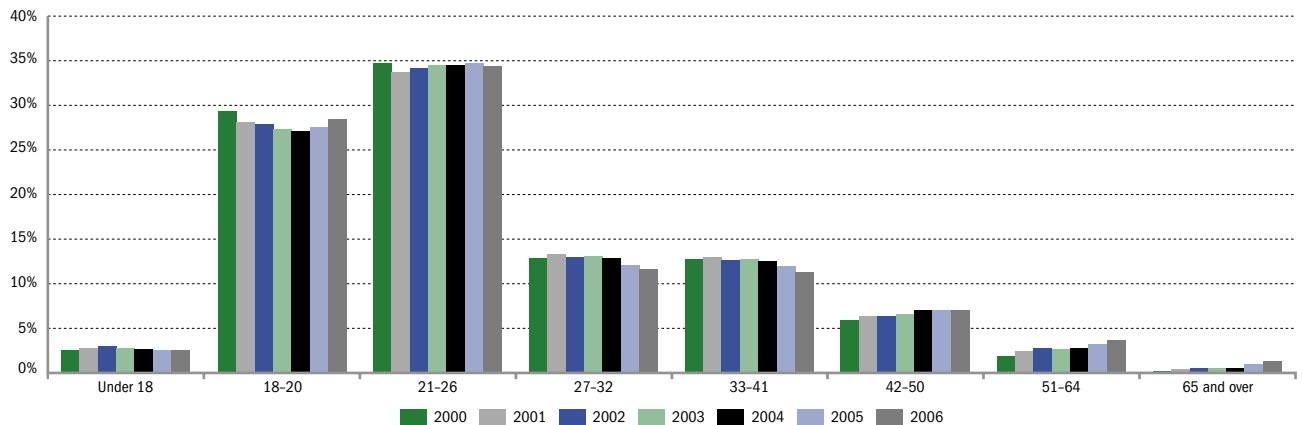
Source: Ministry of Education and Ministry of Social Development.

Age

The following graph shows the age profile of all student loan borrowers for each year of borrowing since 2000. In 2006, borrower numbers increased in all age groups. The largest increase was in groups aged 47 and over, with the next highest being those aged 18 to 20. The ageing of borrowers follows trends in tertiary enrolments; since 1994, 45.5 percent of all enrolment growth has been among those aged 40 or over.

19 These vocational restrictions were removed from 1 January 2007.

Figure 17 Percentage of borrowers by age – people actively borrowing 2000-2006



Source: Ministry of Social Development.

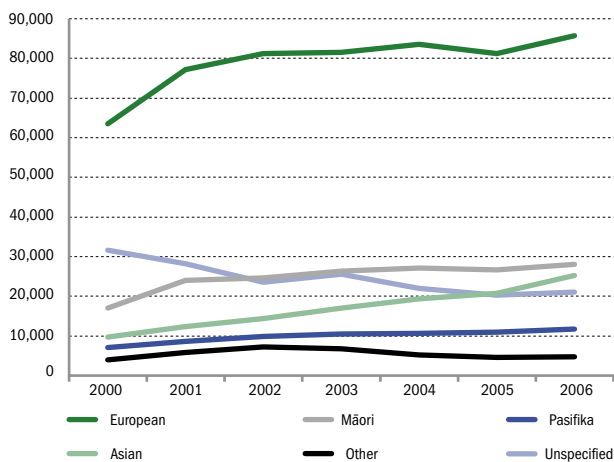
In 2006, 72 percent of all student loan borrowers were aged under 30. Those borrowers aged 55 or over represented 3.4 percent of all borrowers – up from 2.6 percent in 2005. The number of borrowers aged 65 or over has risen to 2,196 in 2006 – up from 1,405 in 2005 and 223 in 2000. Of these, 859 were new borrowers, representing a 46.3 percent increase in new borrowers aged 65 or over from 2005.

The ageing of the overall student population and growing recognition of the social value of lifelong learning have contributed to the increasing numbers of older people borrowing in recent years.

Ethnicity

In 2006, 51.1 percent of borrowers and 57.5 percent of students identified themselves as European; 16.7 percent of borrowers and 21.2 percent of students identified themselves as Māori; 15 percent of borrowers and 16 percent of students identified themselves as Asian; and 7 percent of borrowers and 6.6 percent of students identified themselves as Pasifika.²⁰

Figure 18 Borrowers by ethnic group 2000-2006



Note: This graph is from the total response version of the StudyLink ethnic data. If borrowers declare two ethnic groups, they are counted in each. If they declare three or more, they are counted in 'Other'.

Source: Ministry of Social Development.

4.2 Amounts borrowed

Total borrowings

In 2006, students borrowed \$1,099.8 million from the loan scheme. The total amount borrowed each year grew significantly during the 1990s as the loan scheme developed and enrolments rose. The increase in the amount borrowed was also a consequence of the steady rise in fee levels over that period. In 1999, the entitlement to borrow for course-related costs was reduced, leading to a fall in total borrowing that year. The reduction in that entitlement was reversed a year later and contributed to total borrowing rising by 37 percent between 1999 and 2000 (from \$566 million to \$776 million).

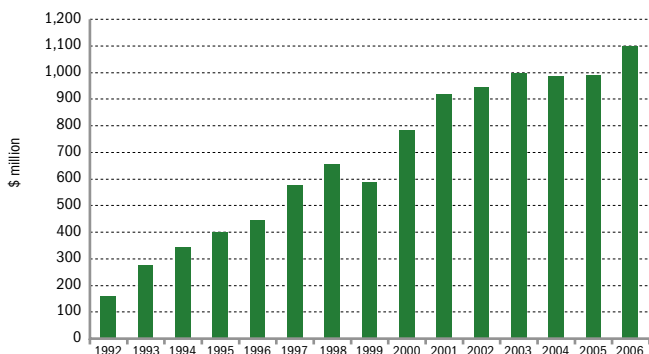
From 2001 to 2005, the aggregate amount borrowed was relatively stable. There are three main reasons for the reduction in the growth in borrowing over this period:

- The government controls on fees since 2001 meant that fees – the largest component of borrowing – stabilised.
- Enrolment growth began to taper off, reducing the increase in the numbers enrolled in loan-eligible qualifications.
- There was an increase in enrolments by part-time students, who have smaller entitlements and are more likely to finance their studies privately.

In 2006, the introduction of interest-free student loans for New Zealand-resident borrowers and some changes to the conditions for borrowers overseas have generated an increase in borrower numbers (8.4 percent) and in the amount borrowed (11.9 percent).

²⁰ As 12.1 percent of people applying for loans chose not to respond to questions defining their ethnicity, the actual ethnic split of borrowers may differ from the figures above.

Figure 19 Total loan borrowing by year 1992-2006



Source: Ministry of Social Development and Ministry of Education.

Average and median borrowing in a year

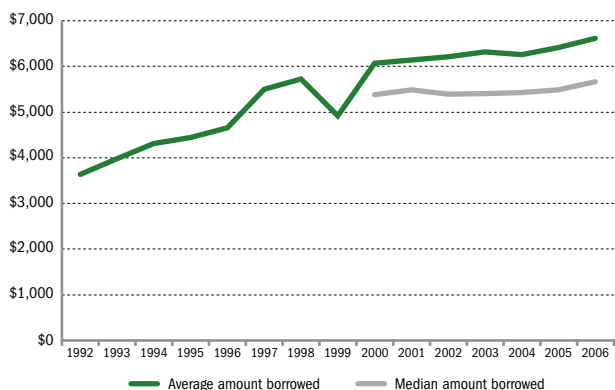
The average amount borrowed increased by \$202 (3.2 percent) to reach \$6,610 in 2006, compared with an increase of \$150 in 2005. The median amount borrowed in 2006 was \$5,663, an increase of \$178 (3.2 percent) from 2005.

The average amount borrowed²¹ showed a steady increase between 1992 and 1998, in part reflecting increases in student fees. The decrease in average borrowing in 1999 was due to the decrease in the maximum course-related costs entitlement from \$1,000 in 1998 to \$500 in 1999²² and to other changes that restricted the purposes for which finance from the loan scheme could be used.²³

Average borrowing increased again in 2000 when some of the changes in 1999 were rescinded (notably the reduction in course-related costs entitlement and the removal of the right to borrow compulsory student services levies and students' association fees). The fee stabilisation policy²⁴ implemented in 2001 meant that tuition fees charged by most tertiary education providers did not increase in those years.

From 2004, fees have been regulated by the FCCM policy.²⁵ Under this policy, providers are permitted to increase fees but only within strict limits.

Figure 20 Average amount borrowed by year 1992-2006 and median amount 2000-2006



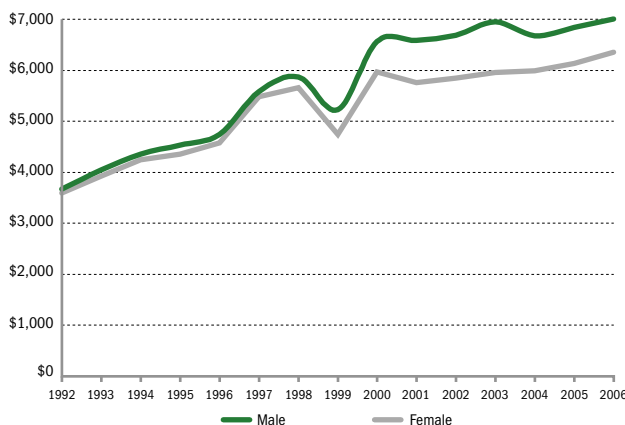
Note: The decrease in average borrowing for 1999 was due to the decrease in the maximum course-related costs entitlement from \$1,000 in 1998 to \$500 in 1999.

Source: Ministry of Social Development.

Gender differences

While men and women are equally likely to borrow through the loan scheme, women tend to borrow slightly less.

Figure 21 Average amount borrowed by gender and year 1992-2006

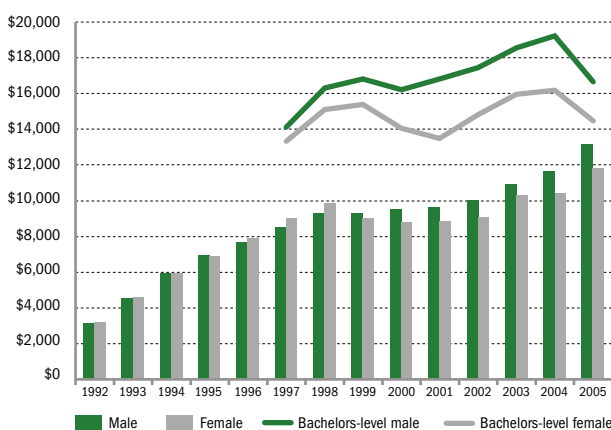


Source: Ministry of Social Development and Ministry of Education.

In some years, women have left study with higher median loans than men despite the fact that women tend to borrow less on an annual basis. The reason for this is that women have a higher rate of completion of qualifications and are more likely to be enrolled at degree level, and are therefore more likely to remain in study for longer.

Figure 22, drawn from the integrated dataset, gives the median leaving balances of men and women from 1992 to 2004.

Figure 22 Median leaving loan balance for 1992-2005 leaving cohorts by gender - all borrowers and those who studied at bachelors level 1997-2005



Source: Statistics New Zealand, integrated dataset.

The greatest volume of borrowing has tended to be by students at bachelors-degree level.²⁶ Figure 22 also tracks the loan balances of those who studied at this level and left between 1997 and 2003.

21 The average amount borrowed includes all amounts drawn down from a loan account (excluding the \$50 administration fee and the interest charged). It is calculated by dividing the total amount borrowed by the number of borrowers in the same year. The \$50 administration fee and interest are excluded as they are not linked to any particular period of study, but are charged to the loan account as a whole in each year of borrowing.
22 The entitlement was changed back to \$1,000 in 2000.

23 Living costs were paid in fortnightly instalments instead of lump sums and students' association fees were no longer payable from the loan scheme. (This last change was rescinded in 2000.)

24 See the glossary in appendix 4 for details.

25 See the glossary in appendix 4 for details of the Fee and Course Costs Maxima policy.

26 This includes certificates and diplomas at level 7 on the National Qualifications Framework.

Loans by component

Most borrowers use the loan scheme to pay the compulsory fees charged by the tertiary education provider. In 2006:

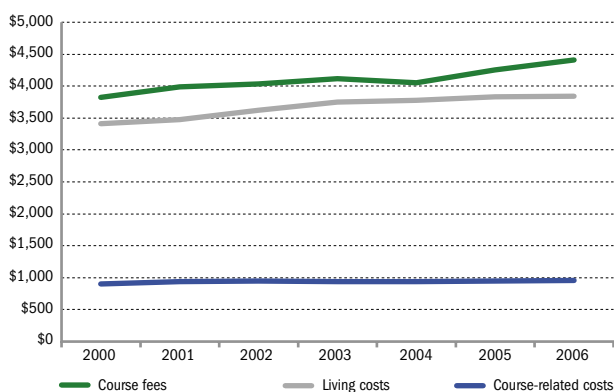
- 93.4 percent borrowed to pay fees
- 62.4 percent borrowed to help meet course-related costs
- 48.5 percent borrowed towards meeting their living costs
- 23.9 percent borrowed for fees only
- 59.5 percent of those eligible to borrow fees did so.

From 2000 to 2006:

- about 61 percent of all money drawn from the loan scheme was used to pay fees
- the amount drawn for course-related costs varied between 8.4 and 9.7 percent
- the amount drawn for living costs varied between 28.4 and 31.2 percent.

The average amount borrowed to pay fees has not increased very much from 2000 to 2006. In part, this reflects the government's fee stabilisation policy introduced in 2001 (see chapter 3.5), and the higher incidence of part-time enrolments in tertiary education. The increase in the total amount borrowed for fees reflects the increase in the number of borrowers. These trends are represented in Figures 23 and 24.

Figure 23 Average amount drawn by loan component 2000-2006



Source: Ministry of Social Development.

Table 4 Students who borrowed fees by provider type 2000-2006

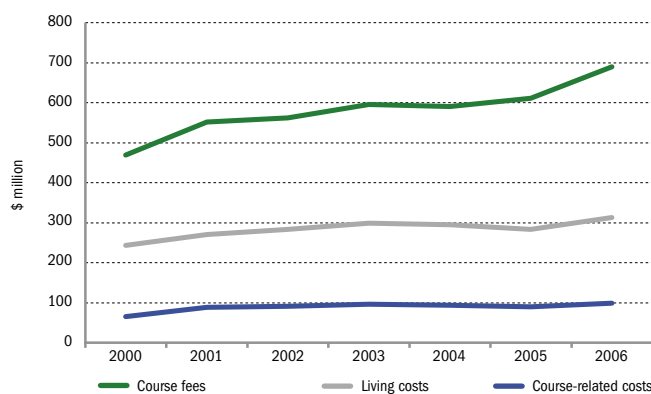
	2000	2001	2002	2003	2004	2005	2006
Universities	62,273	66,635	69,653	71,982	73,183	74,586	81,035
Institutes of technology and polytechnics	37,768	39,720	40,452	40,767	39,196	36,400	38,077
Colleges of education	5,189	5,307	5,445	5,556	5,434	2,528	2,517
Private training establishments	17,754	27,007	23,537	25,924	26,973	29,136	34,485
Wānanga	2,100	2,895	3,118	3,564	3,783	3,465	2,826
Total	125,084	141,564	142,205	147,793	148,569	146,115	158,940

Notes:

1. From 2000, loan components other than fees were not recorded by provider type.
2. A student studying at more than one provider type has been counted in each provider type.

Source: Ministry of Social Development.

Figure 24 Total amount drawn by loan component 2000-2006



Source: Ministry of Social Development.

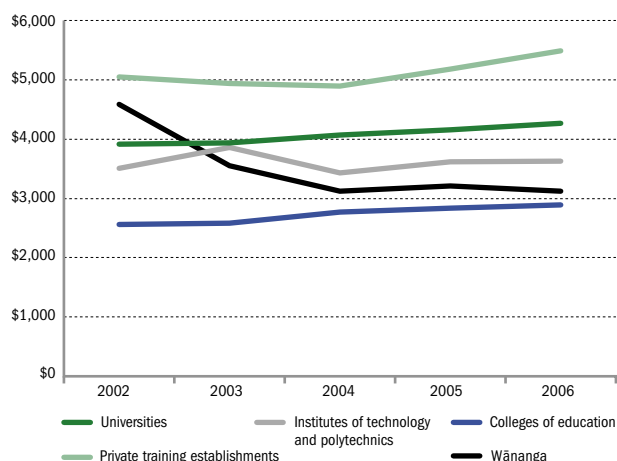
Provider type

Nearly half of all those who borrowed fees under the compulsory fees component of the loan scheme in 2006 were enrolled at universities. This proportion has remained relatively stable over recent years.

The uptake of loans at wānanga is significantly lower than at other provider types. This reflects the availability of zero-fee qualifications at wānanga and the high proportion of wānanga students enrolled on a part-time basis. The number of borrowers at wānanga also reduced significantly in 2006 and this is largely due to changes in funding that led to a reduction in enrolments.

There was an 18.4 percent increase in the number of private training establishment students borrowing fees in 2006 and the average amount borrowed for course fees by private training establishment students increased from \$5,172 in 2005 to \$5,485.

The reduction in the number of borrowers enrolled at colleges of education follows the amalgamation of Auckland College of Education with the University of Auckland in 2004 and of Wellington College of Education with Victoria University in 2005. The remaining two colleges of education merged with their local universities on 1 January 2007.

Figure 25 Average course fees borrowed by provider type 2002-2006

Source: Ministry of Social Development.

Qualification level

In 2006, there were marked differences between the borrowing levels of men and women at most qualification levels and these are shown in the following table.

Table 5 Student loan borrowers by qualification level, gender and average amounts borrowed 2005-2006

Qualification level	Gender	2005		2006	
		Number of borrowers	Average amount borrowed	Number of borrowers	Average amount borrowed
Doctorates	Female	461	\$5,294	573	\$5,390
	Male	512	\$5,341	581	\$5,433
	Total	973	\$5,319	1,154	\$5,411
Masters, honours, postgraduate certificates and postgraduate diplomas	Female	5,490	\$5,541	6,088	\$5,657
	Male	4,063	\$6,116	4,287	\$6,201
	Total	9,553	\$5,786	10,375	\$5,882
Bachelors degrees, graduate certificates and diplomas	Female	46,397	\$6,562	48,729	\$6,764
	Male	31,951	\$6,999	33,583	\$7,181
	Total	78,349	\$6,740	82,312	\$6,934
Diplomas	Female	12,987	\$5,362	12,959	\$5,368
	Male	7,879	\$7,727	8,177	\$7,943
	Total	20,866	\$6,255	21,136	\$6,364
Certificates	Female	30,047	\$5,289	30,621	\$5,477
	Male	18,214	\$5,655	19,591	\$5,745
	Total	48,261	\$5,427	50,212	\$5,581
Other	Female	774	\$5,923	4,642	\$6,683
	Male	532	\$7,243	3,101	\$7,395
	Total	1,306	\$6,461	7,743	\$6,968
Total		154,411	\$6,408	167,420	\$6,610

Notes:

1. Some borrowers were enrolled in qualifications at more than one level.
2. Data is provisional.

Source: Ministry of Social Development.

The availability of scholarships for higher-level study may explain the lower average borrowing at postgraduate level.

Loans and student allowances

The government helps students meet their living costs by providing student loans and student allowances. The two schemes are interconnected. Full-time students can borrow up to \$150 a week from the loan scheme, less any student allowances, to help meet living costs.

In 2006:

- 12 percent of all 2006 borrowers borrowed living costs under the loan scheme and also received student allowances. While the proportion (12 percent) is the same, there has been an 8 percent increase in these borrowers since 2005.
- 33.6 percent of people receiving student allowances used the loan scheme to supplement their living costs in 2006, compared with 32.5 percent in 2005.

Table 6 Student allowances compared with student loan living costs borrowings in 2006

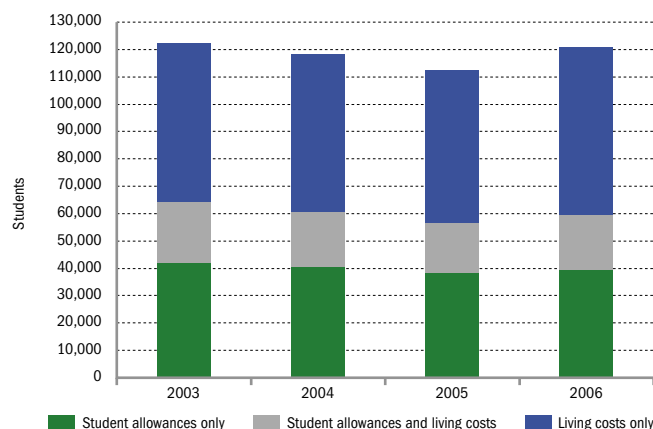
	Number of students	Average allowances	Average living costs	Average allowances and living costs
Student allowances only	39,487	\$6,568		\$6,568
Student allowances and living costs	19,944	\$5,689	\$1,703	\$7,393
Living costs only	61,315		\$4,534	\$4,534
Total (living costs and/or allowances)	120,746	\$3,088	\$2,584	\$5,671

Source: Ministry of Social Development.

On average, in 2006:

- those who received student allowances received \$6,568
- those who received student allowances and used the living costs entitlement under the loan scheme borrowed \$1,703 from the loan scheme and received \$5,689 in student allowances – meaning they got a total of \$7,393 from both schemes
- those who relied solely on the living costs entitlement under the loan scheme received \$4,534.

Figure 26 Students borrowing living costs and receiving student allowances 2003-2006



Source: Ministry of Social Development.

4.3 People repaying loans

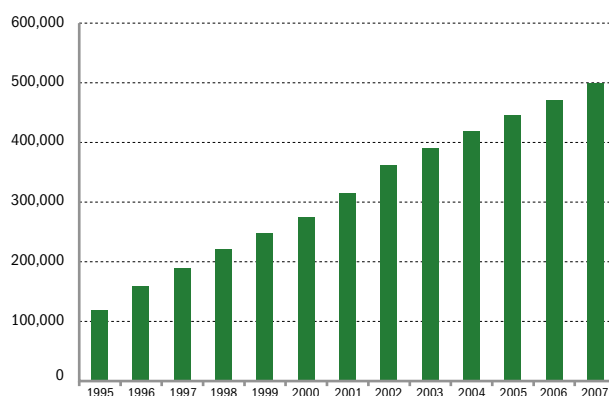
Loans with Inland Revenue

A total of 712,405 people have used the loan scheme since it began. This represents around 22 percent of the New Zealand population aged over 15. As the loan scheme matures and participation in tertiary education increases, a larger proportion of New Zealand's population can be expected to have student loan balances with Inland Revenue.

At 30 June 2007, 499,259 people had a student loan. This is a 6.1 percent increase from 2006 and an 82 percent increase from 30 June 2000.

Those with loans at 30 June 2007 represented 15.2 percent of the population aged 15 and over, compared with 14.4 percent the previous year and 12.8 percent at 30 June 2004.

Figure 27 Borrowers with Inland Revenue at 30 June 1995-2007



Source: Inland Revenue.

Characteristics of people with loans

Of those with loan balances, 55 percent were aged under 30, 89 percent were under 45 and 5.6 percent over 50. These proportions will change over time as the loan scheme matures and the group of people who have made no progress in repaying their loans over an extended period gets older. Those aged under 30 with student loans represented 32 percent of the population between 15 and 30 years, while borrowers over 50 years were less than 2.4 percent of the population in that age range.

The number of people over the age of 60 with loan balances rose from 3,275 to 7,726 between 2003 and 2007. To some extent, this reflects the increase in enrolments amongst older people since 2000, with a consequent rise in borrowing amongst older age groups. It also reflects the ageing of the population of those with loans. However, at 1.6 percent, those aged 60 years or over are still a small proportion of all borrowers.

Information from the integrated dataset indicates that, of those who borrowed under the loan scheme after 1997 and had a student loan at 31 March 2006:

Ethnicity

- 48 percent were European
- 21 percent were Māori
- 9 percent were Asian
- 7 percent were Pasifika peoples.

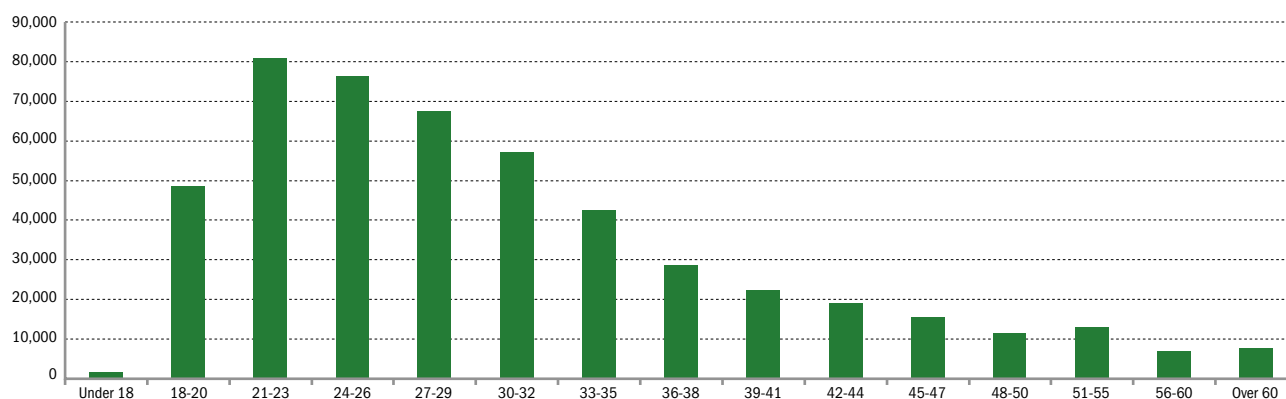
Gender

- 56 percent were female.

Provider/sub-sector type

- 42 percent studied at a university or college of education
- 33 percent studied at a polytechnic
- 21 percent studied at a private training establishment.
- 4 percent studied at a wānanga.

Figure 28 Borrowers with Inland Revenue at 30 June 2007 by age



Source: Inland Revenue.

Qualification level

- 35 percent studied at bachelors level
- 33 percent studied at certificate level
- 13 percent studied at diploma level
- 6 percent studied at postgraduate level.

Borrowers overseas

Until 31 March 2007, borrowers living overseas were called non-resident borrowers and this status was linked to a borrower's residency for tax purposes.

From 1 April 2007, borrowers living overseas are referred to as overseas-based borrowers. An 'overseas-based borrower' is anyone not eligible for an interest-free student loan. As at 30 June 2007, nearly 58,000 borrowers²⁷ were known to be overseas. Due to the change in definition it is not possible to compare this statistic with figures from previous years.

A data-matching programme (see chapter 3.2) has been set up to administer interest-free student loans. The data match enables Inland Revenue to identify borrowers who have left New Zealand, by matching personal details against Customs arrival and departure information. A historic data match has identified approximately 38,000 borrowers who had not notified Inland Revenue of their departure. These additional borrowers account for the increase in 'borrowers overseas' compared with figures reported last year for those known to be non-resident.

Amnesty

An amnesty for borrowers living overseas came into effect on 1 April 2006. The aim of the amnesty was to remove one of the barriers to borrowers wanting to return to New Zealand and encourage borrowers into making regular student loan repayments.

This first amnesty ran from 1 April 2006 to 31 March 2007 and applied to borrowers who were:

- non-resident and had arrears at the start of this amnesty period, or
- overseas at the start of the amnesty period, had not advised Inland Revenue of their absence and had non-resident arrears.

²⁷ This figure is subject to change due to the transition period between definitions and borrowers retrospectively meeting the 183-day rule.

Borrowers who qualified for the amnesty could apply to have their student loan late payment penalties written off up to the date of their application. When a borrower applied for the amnesty they agreed to meet the amnesty repayment obligations for two years from the date of their application.

Inland Revenue accepted 1,990 amnesty applications under the first amnesty (between 1 April 2006 and 31 March 2007) and the amount of debt that was reversed totalled \$27 million, of which \$12 million was late payment penalties. The remaining \$15 million was repayment obligations. These were added back onto the loan balance and incur interest over the length of time a repayment obligation has been outstanding.

New legislation that came into effect on 1 April 2007 included an extension of the amnesty from 1 April 2007 to 31 March 2008. (See chapter 3.1.)

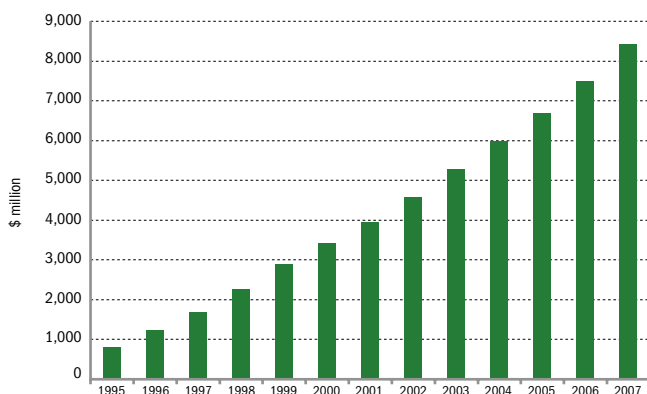
4.4 Loan balances

Total balances

At June 2007, the book value of student loan balances was \$6,011 million, compared with \$5,569 million the previous year. The increase is due to new loans provided in the current year less repayments made. This is the second year that the loans have been valued according to International Financial Reporting Standards (NZ IFRS), details of which can be found in chapter 6.

The nominal face value of loan balances was \$9,413 million, compared with \$8,370 million on 30 June 2006. This represents an increase in face value of 12 percent. Of this balance, \$8,404 million was held by Inland Revenue and \$1,009 million by the Ministry of Social Development.

Figure 29 Nominal value of student loans held by Inland Revenue at 30 June 1995-2007



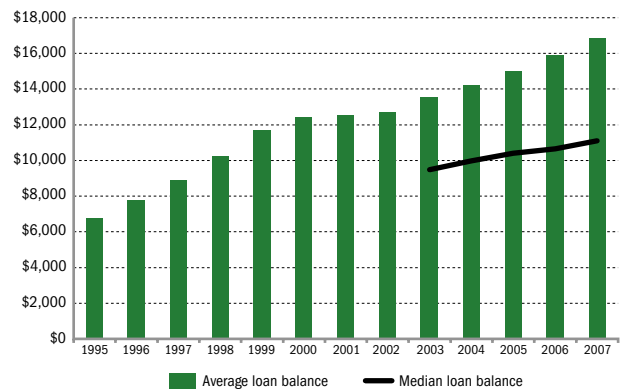
Source: Inland Revenue.

Average and median balances

The average loan balance with Inland Revenue was \$16,833, an increase of 5.9 percent from \$15,883 on 30 June 2006. The average loan has risen by 36 percent since 2000.

The median loan balance on 30 June 2007 was \$11,087, compared with \$10,652 on the same date in 2006 – a rise of 4 percent. Twenty-nine percent of all loans were less than \$6,000 while only 4.4 percent were above \$50,000 (compared with 3.9 percent in 2006).

Figure 30 Average student loan balance with Inland Revenue at 30 June 1995-2007 and median balance 2003-2007



Source: Inland Revenue.

The average loan balance is higher than the median because there is a relatively small number of large loan balances, which lift the average. The distribution of balances is shown in the following table.

Table 7 Range of loan balances held by Inland Revenue at 30 June 2007

Range of loan balances	Borrowers	Percentage	Cumulative percentage
\$1 - \$1,999	48,085	9.6%	9.6%
\$2,000 - \$3,999	43,747	8.8%	18.4%
\$4,000 - \$5,999	51,738	10.4%	28.8%
\$6,000 - \$7,999	45,616	9.1%	37.9%
\$8,000 - \$9,999	40,119	8.0%	45.9%
\$10,000 - \$14,999	78,349	15.7%	61.6%
\$15,000 - \$19,999	49,571	9.9%	71.6%
\$20,000 - \$24,999	37,835	7.6%	79.1%
\$25,000 - \$29,999	26,520	5.3%	84.4%
\$30,000 - \$34,999	20,706	4.1%	88.6%
\$35,000 - \$39,999	15,604	3.1%	91.7%
\$40,000 - \$44,999	11,073	2.2%	93.9%
\$45,000 - \$49,999	8,569	1.7%	95.6%
\$50,000 - \$54,999	5,879	1.2%	96.8%
\$55,000 - \$59,999	4,248	0.9%	97.7%
\$60,000 - \$79,999	8,038	1.6%	99.3%
\$80,000 - \$99,999	2,346	0.5%	99.8%
over \$99,999	1,216	0.2%	100.0%
Total	499,259	100.0%	

Source: Inland Revenue.

Information from the integrated dataset had the following findings on 31 March 2006:

- Māori borrowers had the lowest average loan balance.
- European borrowers had the highest average loan balance.
- The average loan balance for those who had last studied at bachelors-degree level or higher was much higher than the

overall average loan balance. This reflects the higher fees and longer periods of study at those levels.

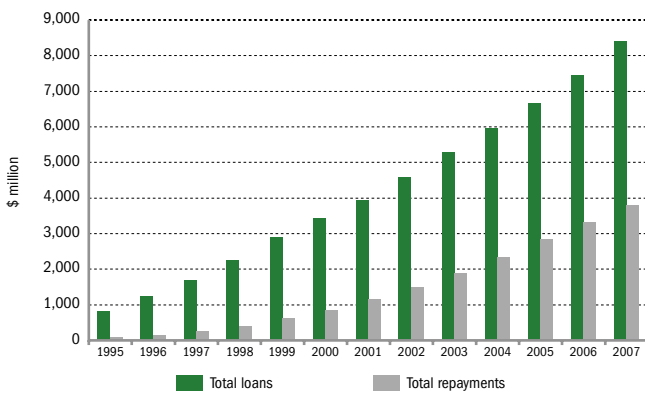
- Those who had studied at universities had higher loan balances on average than those who had studied at polytechnics, colleges of education, wānanga and private training establishments – reflecting the longer duration of university qualifications.
- The average loan balance was higher for men than for women.

Repayments

Repayments collected

Inland Revenue has collected \$3,800 million in loan repayments since the loan scheme began. Of this, \$2,161.5 million has been collected by employers through the pay as you earn (PAYE) system. The balance (\$1,638.4 million) has been paid directly by self-employed borrowers, overseas borrowers, and borrowers who have made additional repayments.

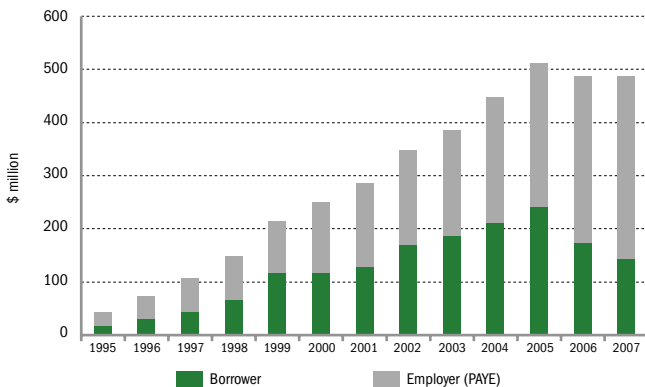
Figure 31 Cumulative student loan repayments received by Inland Revenue compared with aggregate loan balances 1995-2007



Source: Inland Revenue.

Figure 32 shows the loan repayments received by Inland Revenue, split by repayments direct from borrowers to Inland Revenue and repayments made by employer deductions under the PAYE system, in each fiscal year.

Figure 32 Value of gross student loan repayments received by Inland Revenue 1995-2007 – borrower/employer split



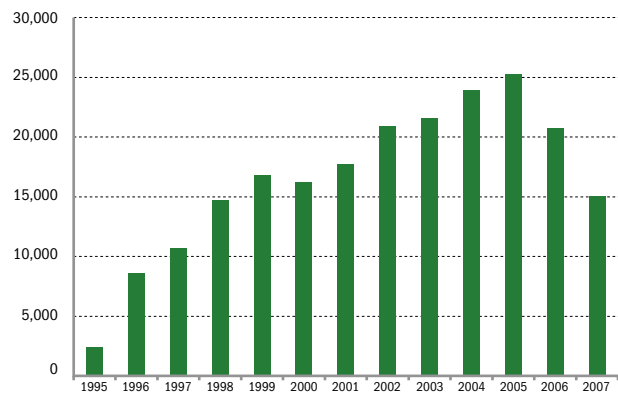
Source: Inland Revenue.

The decline in the volume of repayments outside the PAYE system and in the number of loans being repaid is most probably the result of changes in repayment behaviour after the removal of interest charges for most borrowers. The administrative system for loan repayments does not distinguish between payments outside the PAYE system. These payments are from self-employed people, borrowers who are overseas and from borrowers making extra payments.

Loans fully repaid

The number of loans fully repaid in 2006/07 was 15,059. Since the loan scheme began, 216,254 loans have been repaid in full. This represents more than 30 percent of all loans drawn down.

Figure 33 Loans fully repaid to Inland Revenue at 30 June 1995-2007



Note: Because a student loan account can be finalised after the end of the fiscal year, the number of loans repaid for a previous year may change.

Source: Inland Revenue.

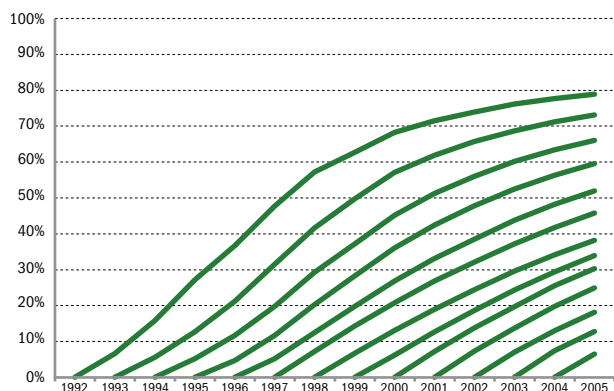
The likely explanation for the fall in fully repaid loans relates to changes in repayment behaviour that accompanied the introduction of interest-free loans.

Repayment rates

The main determinants of repayment rates are employment and income. As people's incomes rise, their repayment obligations increase. Therefore, people's repayment rates tend to start slowly and increase as they gain experience in the workforce.

The proportion of those who have repaid their loans year by year for each cohort of leaving borrowers is shown in Figure 34.

Figure 34 Proportion of borrowers who have fully repaid each year for each cohort of leaving borrowers 1992-2005



Source: Statistics New Zealand, integrated dataset.

Studies of repayment rates have the following findings:

- Women repay more quickly than men in the early years after study.
- Five to six years after leaving study, the proportion of men and women who have repaid in full becomes roughly equal.
- Successful completion of a qualification is associated with quicker repayment.
- Those who study at higher qualification levels tend to repay more quickly despite having higher leaving balances.
- If all other factors are held constant, those with smaller loans tend to repay more quickly.

Interest-free student loans

Interest-free student loans came into effect on 1 April 2006. Student loan borrowers eligible for interest-free loans (they must be living in New Zealand for 183 consecutive days or more) had their interest reversed – written off automatically after the end of the tax year (31 March 2007).

For the year ending 30 June 2007, a total of \$531.1 million was written off under the interest-free policy.

Of the total number of student loan borrowers, 87 percent received an interest-free write-off for the tax year ending 31 March 2007. The amount written off relating to the tax year ending 31 March 2007 was \$454.5 million.

Exemptions

Of those eligible for interest-free loans, borrowers who did not satisfy the 'living in New Zealand' criterion can apply for an exemption to make their loan interest-free. Exemptions apply to circumstances such as overseas study and volunteer work.

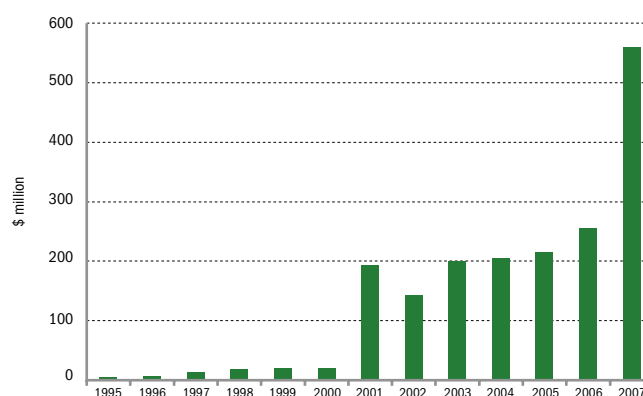
From 1 July 2006 to 30 June 2007, there were 178 exempt borrowers. Eligibility for these exemptions was extended from 1 April 2007 to include borrowers studying at undergraduate level.

Other interest write-offs

Before the introduction of interest-free student loans on 1 April 2006, many borrowers were already entitled to have all or some of the interest on their loans written off. In 2000, full interest write-offs were introduced for all full-time students and for part-time students on low incomes, while low-income people have had some interest write-offs since the loan scheme began. From 1 April 2007, these other interest write-offs are no longer available.

The following graph shows total interest write-offs by fiscal year.

Figure 35 Value of interest write-offs at 30 June 1995-2007



Notes:

1. The decrease in the total amount written off for the fiscal year to June 2002 occurred because some write-off rules apply only to the base interest. During the fiscal year to June 2002, the base interest rate was set at 3.1 percent for nine months of the period (to 31 March 2002) and 5.1 percent for the last three months. The lower base interest rate in the tax year to 31 March 2002 meant that amounts written off were lower.
2. The majority of interest write-offs for the 1999/2000 income year were credited to the borrowers' loan accounts in October 2000. This means the values in the above table are understated for 1999 and 2000 and overstated for 2001.

Source: Inland Revenue.

Interest write-offs are calculated on a tax year basis (to 31 March of each year). A total of \$1,842 million in interest has been written off since the loan scheme began.

In the year to 30 June 2007:

- more than 464,000 borrowers had interest written off totalling \$558.4 million – of this, \$531.1 million related to the interest-free policy
- other interest write-offs which no longer apply from 1 April 2007 totalled \$27.4 million – this includes full interest write-off for full-time students and for low-income, part-time students, base interest write-offs²⁸ and base interest reductions.²⁹

Loan balances written off due to death or bankruptcy

The loan balances of deceased borrowers are written off under section 60 of the Student Loan Scheme Act 1992. There were 313 borrowers who died during 2006/07 – resulting in \$1.7 million being written off.

The student loans of borrowers adjudicated bankrupt are written off under the Insolvency Act 1967. There were 954 borrowers registered as bankrupt during 2006/07 – resulting in \$9.1 million being written off.

28 See the glossary in appendix 4 for definition.

29 See the glossary in appendix 4 for definition.

Since the loan scheme was introduced:

- 5,121 borrowers have had a loan balance written off due to bankruptcy³⁰
- \$80 million has been written off for deceased and bankrupt borrowers.

Tables 8 and 9 show the amounts and numbers of write-offs for deceased and bankrupt borrowers.

Interest write-offs due to death or bankruptcy

Table 8 Value of deceased and bankruptcy write-offs at 30 June 2003-2007

Year	Deceased \$ million	Bankruptcy \$ million
2003	2.3	3.5
2004	4.5	8.5
2005	3.6	9.5
2006	4.2	10.5
2007	1.7	9.1

Source: Inland Revenue.

Table 9 Number of deceased and bankruptcy write-offs at 30 June 2003-2007

Year	Deceased	Bankruptcy
2003	342	491
2004	284	607
2005	359	734
2006	401	807
2007	313	954

Notes:

1. Because a student loan account can be finalised after the end of the fiscal year, the number of deceased and bankrupt borrowers for an earlier year may change.
2. The number of borrowers in this table does not necessarily directly relate to the amounts written off for the corresponding year.

Source: Inland Revenue.

Write-offs do not necessarily occur in the same year as the death or bankruptcy. The amount written off (Table 8) relates to the year the write-off occurred, whereas the number (Table 9) relates to the year the borrower died or was adjudicated bankrupt.

It can take some time for a bankruptcy to be settled and for the actual write-off to occur. Finalising the bankrupt's account and writing off the loan balance cannot happen until the Official Assignee produces a final report on the case. In some situations, this can take up to three years after filing for bankruptcy. Therefore, care should be taken when comparing Table 8 with Table 9.

Projected repayment

At the end of 2006, around 28 percent of all loan balances accumulated under the loan scheme since it began (through interest, penalties and drawings) had been repaid and about 12 percent written off.

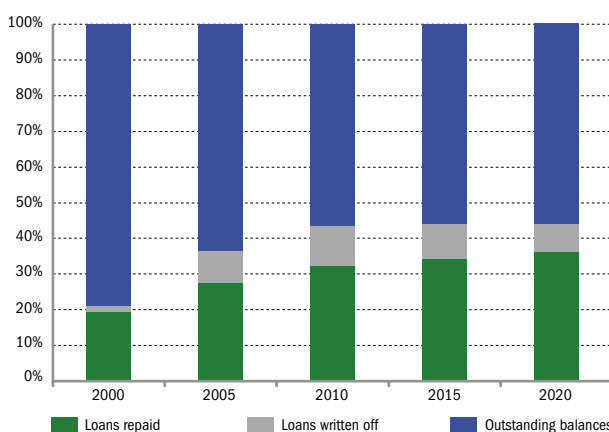
This means that 60 percent of the aggregate accumulated loan balance remains outstanding. As the loan scheme matures, these

proportions will change:

- In 2000, 19 percent had been repaid and 1.75 percent written off.
- By 2010, it is expected that about a third of the aggregate accumulated loan balances will be repaid, 11 percent written off and around 57 percent remain outstanding.
- By 2015, it is forecast that 35 percent will be repaid, 8 percent will be written off, and 57 percent will be outstanding.

Figures 36 and 37 show the trend in the value of the aggregate accumulated loan balances against the trend in repayment.

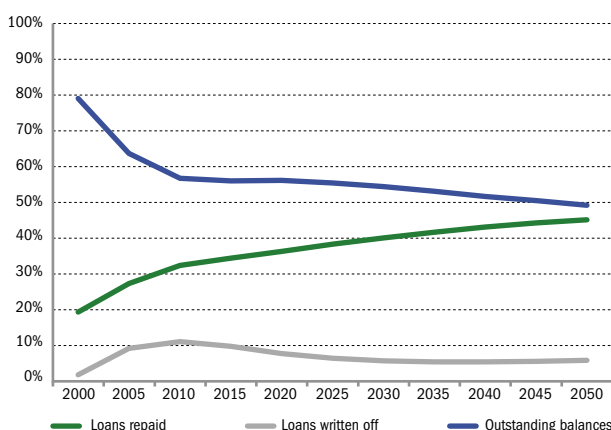
Figure 36 Projected proportions of loan repayments made, loans written off and outstanding balances 2000, 2005, 2010, 2015 and 2020



Source: Ministry of Education and Inland Revenue.

Long-term projections suggest that by 2050 around 45 percent of the aggregate accumulated loan balance (including interest, penalties and drawings) will have been repaid, with less than 6 percent written off, and around 49 percent outstanding.

Figure 37 Projected proportions of loan repayments made, loans written off and outstanding balances 2000-2050



Source: Ministry of Education and Inland Revenue.

Before the introduction of the interest-free loan policy, it was projected that repayments of student loans would exceed drawings in the year 2016. Now, this is not expected to occur before 2050.

³⁰ Inland Revenue does not bankrupt student loan borrowers solely on the basis of student loan borrowings or overdue repayment obligations.