Education Report: Student Loan Scheme quarterly report October to December 2018

To: Minister of Education, Hon Chris Hipkins
C.c. Minister of Revenue, Hon Stuart Nash
Minister for Social Development, Hon Carmel Sepuloni
Associate Minister of Education, Hon Tracey Martin

Date: 4 February 2019
Priority: Medium

Security Level: In Confidence
METIS No: 1170062

Drafter: Christina Mansfield
DDI: 9 2(a)

Key Contact: John Brooker
DDI: No

Messaging seen by Communications team: No
Round Robin: No

Purpose of Report

This paper provides you with an update on the performance of the Student Loan Scheme (the Scheme) in the period October to December 2018. As part of Ministerial governance of the Scheme, officials report quarterly on the performance of the Scheme.

Summary

For quarter two (1 October – 31 December) 2018/19 compared with quarter two 2017/18:

- Total borrowing was up $17.9m (13.3%).
- 1,319 (8.2%) fewer students borrowed for fees and 3,464 (4.0%) fewer students borrowed in total.
- 2,370 (3.3%) fewer students borrowed for living costs, however the amount borrowed for living costs increased by $19.6m (22.1%). This can be attributed to the increase of $50 to the maximum amount available to borrow for living costs each week.
- Among students who borrowed for fees, the average amount borrowed increased by $173 (5.6%).
- The average each student borrowed in total increased by $288 (17.0%).
- Total loan repayments increased by $13m (4.1%). The numbers of borrowers with overdue payments increased by 0.3% and the percentage of these borrowers who are overseas based decreased by 1.8%.

The Government’s Fees-Free policy has reduced the number of people borrowing for fees. Total borrowing in calendar year 2018 was down $115.0m (7.4%), compared with 2017 (see Annex one). This reflects a decrease of $194.2m in borrowing for fees and a decrease of $8.7m in course related costs, partly offset by an increase of $87.9m in borrowing for living costs (due to the $50 increase).
Recommended Actions

The Ministry of Education recommends you:

a. note that this report has been prepared with input from the Ministry of Social Development, Inland Revenue and the Tertiary Education Commission.

b. proactively release this paper, in consultation with the Ministry of Social Development, Inland Revenue and Tertiary Education Commission and with any necessary redactions under the Official Information Act 1982.

Release/Not release

Grant Klinkum
Student Loan Lead Official
Graduate Achievement, Vocations and Careers
04/02/2018

Hon Chris Hipkins
Minister of Education
17/2/19
Student Loan Scheme at a glance – Performance changes for quarter two (October to December) 2018/19 compared to quarter two 2017/18

- Total borrowing was up $17.9m (13.3%)
- 3464 (4.0%) fewer students borrowed in total
- 1319 (8.2%) fewer students borrowed for fees
- The average amount borrowed increased by $288 (17.0%)
- The average amount borrowed for fees increased by $173 (5.6%)
- Total loan repayments increased by $13m (4.1%)
- The percentage of borrowers with overdue payments who are overseas-based decreased by 1.8%
- The number of borrowers with overdue payments increased by 0.3%

We expected fewer students to take out loans in quarter two 2018/2019 compared with quarter two 2017/2018 due to the introduction of the first year fees-free tertiary education policy.

We also expected the average amount borrowed to increase due to the $50 weekly increase to the living cost component of the loan.

Whilst the number of borrowers with overdue payments (both in total and those who are overseas-based) decreased, the number of borrowers with overdue payments who are New Zealand-based continues to increase.

This is partly due to overseas-based borrowers returning to New Zealand.
Background

1. This is the second quarterly Student Loan Scheme (the Scheme) performance report of the 2018/19 financial year. The previous report covered July to September [METIS 1159429 refers].

2. This report provides you with an update on (1) Scheme performance, (2) Scheme forecast, and (3) Proposed Student Loan Scheme changes.

3. The quarterly report is compiled by the Ministry of Education (MoE), the Ministry of Social Development (MSD), and Inland Revenue (IR). It is intended to be a source of free and frank advice between these agencies, the Minister of Education, the Minister for Social Development and the Minister of Revenue.

4. Most figures in this report are for the financial quarter two, spanning 1 October to 31 December 2018/19 compared with the corresponding quarter two in 2017/18.

Scheme performance

Table one: Borrowing and repayments over quarter two (1 October to 31 December) for 2017 and 2018

<table>
<thead>
<tr>
<th></th>
<th>Borrowing ($m)</th>
<th>Repayments ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct to Dec 17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct to Dec 17</td>
<td>145.4</td>
<td>314.3</td>
</tr>
<tr>
<td>Oct to Dec 18</td>
<td>163.3</td>
<td>327.3</td>
</tr>
</tbody>
</table>

Source: MSD and IR

Loan borrowing

5. Total borrowing in quarter two 2018/19 was up $17.9m (13.3%), compared with quarter two 2017/18. This reflects an increase of $19.6m (22.1%) in living costs borrowing, partly offset by reductions in borrowing for both fees and course related costs (Figure one).

6. The increase in borrowing for living costs is due to the $50 increase to the amount students can borrow each week (from 1 January 2018). The number of students borrowing for living costs has actually reduced (Figure two).

7. The reduction in fees borrowing can primarily be attributed to the introduction of the Fees-Free policy, but will also have been impacted by reductions in enrolments.

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1 In the previous three reports, these figures have been incorrectly labelled 'borrowing net of refunds' (METIS 1120689, 1138617 and 1159429 refer).

2 Borrowing refers to the amount students borrow using their student loan. A borrower is anyone who has borrowed from the Scheme and who has not yet repaid this borrowing in full. This includes the amount borrowed for fees, course related costs and living costs. These figures do not include the $60 establishment fee and do not allow for repayments and fee refunds.
8. Figure two shows that the number of students borrowing decreased for each component in quarter two: 2,370 (3.3%) fewer students borrowed for living costs, 1,319 (8.2%) fewer borrowed for fees and 501 (4.7%) fewer borrowed for course-related costs, compared with quarter two 2017/18.

9. Overall, the number of students who borrowed during the quarter was 3,464 (4.0%) fewer than the same quarter last year.

10. Figure three shows increases in the average amount borrowed by those drawing loans for each component during the quarter, contributing to an overall average increase of $288 (17.0%) per borrower. The increase in the average amount borrowed can primarily be attributed to the increase to the maximum amount payable for living costs from 1 January.
Interaction with the Fees-Free policy and the $50 increase of student loan living costs

11. The impact of the Government’s Fees-Free policy has reduced the number of people borrowing for fees. The number of people accessing Fees-Free continued to increase throughout the year as the second semester and some programmes with rolling enrolments began. We therefore expected to see a drop in the number of people borrowing for fees to continue in the second quarter of 2018/19.

12. The number of people borrowing for living costs also decreased. We expect this is due to an overall reduction in tertiary enrolments alongside a strong labour market.

13. Of those who did borrow, the average amount borrowed for fees and living costs increased. The increase in borrowing for fees is consistent with fee rises (within the regulated fee limits) and the ongoing shift toward higher-cost and more full-time study. The increase in borrowing for living costs is consistent with the $50 increase to maximum entitlements from 1 January 2018.

14. Annex one sets out the numbers of student loan borrowers and amount for student loan borrowing across the last four quarters from January to January. The figures show that from January 2018 to January 2019:

- $845.1m was borrowed for fees, a decrease of $194m (18.7%) compared to the same period in 2017
- $497.6m was borrowed for living costs, an increase of $87.9m (21.5%) compared to 2017
- $100.2m was borrowed for course-related costs, a decrease of $8.7m (8%) compared to 2017.
Loan repayments

15. Total loan repayments increased in quarter two by $13m (4.1%). Repayments made through employers were 4.6% higher than in quarter two 2017/18. The repayments made from borrowers\(^3\) were 2.7% greater than quarter two in 2017/18.

Default

16. The total amount of student loans in default\(^4\), is $1,321m. The total number of borrowers in default decreased by 3.6% for the quarter but increased by 0.3% for the year. The amount in default increased by 0.4% over the quarter and increased by 12.4% over the year.

Overseas-based borrowers

17. IR reports on the compliance of overseas-based borrowers.

*Figure four: Number of overseas-based borrowers by compliance category*\(^5\)

Source: IR

18. IR has made significant inroads into engaging with more borrowers to repay their student loans. The number of borrowers in default decreases and repayments increase year on year, however the overall level of default will continue to increase, albeit at a slower rate, because of the overseas-based borrower assessment and late payment interest regime. Those borrowers who have been assessed and are compliant make up 42% of the total overseas-based borrower group.

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\(^3\) Direct payments come from self-employed borrowers, overseas-based borrowers or are voluntary.

\(^4\) A borrower is in default if they fail to meet their loan repayment obligations. The default amount is the amount that is overdue.

\(^5\) Compliance means borrowers who are meeting their current obligations and are not in default, or borrowers who are repaying their default amount. Further definitions of compliance categories are in Annex three.
Loan repayments for the 2018 calendar year

19. Annex one includes repayments and overdue repayments. In the calendar year 2018:

- Total repayment was $1,371.3m, an increase of $51.3m (3.9%) compared to the same period in 2017
- Overdue amount was $1,321m, an increase of $146m (12.4%) compared to 2017
- Total number of borrowers in default was 93,034, an increase of 244 (0.3%) compared to 2017.

Student Loan Scheme forecast

Borrowing versus forecast⁶

20. Quarter two 2018/19 saw an increase in borrowing of $2.2m (1.4%) compared to forecast. This is due to a higher amount of borrowing for course fees than expected ($6.0m), but a lower amount borrowed for living costs ($4.0m).

Table two: borrowing versus forecast for the quarter ending 31 December 2018

<table>
<thead>
<tr>
<th></th>
<th>Oct to Dec 2017</th>
<th>Oct to Dec 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual vs forecast ($)</td>
<td>-9.4m</td>
<td>2.2m</td>
</tr>
<tr>
<td>Actual vs forecast (%)</td>
<td>-6.1</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Collections performance compared with IR’s forecast and the valuation forecast

21. Quarter two 2018/19 saw a small decrease of $300,000 compared to forecast; a lower than expected amount of repayments direct from borrowers particularly from overseas-based borrowers contributed to the decline. More analysis is being done by IR to determine why overseas-based borrower repayments have declined over the last two quarters.

Table three: Net repayment versus forecast for the quarter ending 31 December 2018

<table>
<thead>
<tr>
<th></th>
<th>Oct to Dec 2017</th>
<th>Oct to Dec 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual vs forecast ($)</td>
<td>5.8m</td>
<td>-0.3m</td>
</tr>
<tr>
<td>Actual vs forecast (%)</td>
<td>2.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

22. Fiscal year to date collection is down, reaching 98% ($670m) of forecast. Payments received directly from borrowers have impacted on the overall figure as they are only 91% of forecast. As noted above, the cause is being investigated.

⁶ MoE prepares student loan forecast information for the MSD twice a year (for BEFU and HYEFU).
Proposed Student Loan Scheme changes

23. s 9(2)(f)(iv)

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27. Annex four provides further detail on reports you can expect to receive for your decision or for your information.

Proactive Release

28. We recommend proactively releasing this report. Prior to release we would need to consult with MSD and IR regarding any recommended redactions consistent with the provision of the OIA.

Annexes

Annex one: Calendar year-to-date student loan borrowing and repayments
Annex two: Student loans and the media
Annex three: Scheme performance – applications and default
Annex four: Upcoming reports, Cabinet Papers and OIA requests
Table three shows the repayment and default data from the last five years. Repayments increased year on year for both New Zealand based and overseas-based borrowers, until 2018 where overseas-based borrowers have started on a downward trend. IR is investigating what the cause of this may be.

The number of defaulting borrowers continues to trend downwards however the amount in default is increasing albeit at a slower rate. Over the last four years the rate of increase has reduced from 19.9% in 2014 to 9.8% in 2018.

Table three: Repayments and overdue repayments, calendar years

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repayments ($m)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment via employers</td>
<td>773.2</td>
<td>812.4</td>
<td>868.6</td>
<td>930.5</td>
<td>986.8</td>
</tr>
<tr>
<td>Repayment direct from borrowers: New Zealand based</td>
<td>128.9</td>
<td>139.8</td>
<td>155.3</td>
<td>162.9</td>
<td>170.8</td>
</tr>
<tr>
<td>Overseas based</td>
<td>171.3</td>
<td>199.9</td>
<td>212.1</td>
<td>226.6</td>
<td>213.7</td>
</tr>
<tr>
<td>Total Repayment</td>
<td>1,073.4</td>
<td>1,152.1</td>
<td>1,236.0</td>
<td>1,320.0</td>
<td>1,371.3</td>
</tr>
<tr>
<td>Overdue repayments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdue amount at December ($m)</td>
<td>764.8</td>
<td>917.4</td>
<td>1,051.0</td>
<td>1,175.0</td>
<td>1,321.0</td>
</tr>
<tr>
<td>Number of defaulting borrowers</td>
<td>102,013</td>
<td>99,952</td>
<td>95,524</td>
<td>92,790</td>
<td>93,034</td>
</tr>
</tbody>
</table>

Source: IR

Note: data has been rounded so totals in this table may not appear to add.
Annex two: Students loans and the media

Media interest for quarter two included:

October

- Stuff reporter Martin van Beynen reported on the number of overseas-based student loan borrowers (OBB’s) exploring how this has occurred. Figures suggest IR have lost contact with at least 25,000 borrowers, IR stated it is up to the borrowers to keep their details current.

- Stuff reporter Adele Redmond has reported on the growth of student loan repayments from overseas borrowers. IR has attributed a 40% rise in the value of loan repayments over the last four years (from $158m to $221m) to easier payments and greater awareness. Customer Segment leader Bernadette Newman is quoted as saying “IR has seen a steady pick up in overseas payment” since providing options that eliminate international bank fees.

- NZ Herald Business reporter Cameron Bagrie published an opinion piece about ending interest-free student loans. He suggests the policy is poorly directed and subsidising the wrong group. He reports that the majority of student loan borrowers earn a bachelor’s degree or higher with an expectation of expected incomes 1.4 times higher than the median wage five years after university.

- Stuff reporters Adele Redmond and Michael Hayward provided a story suggesting one in three university students do not complete a degree. The article suggests that students enrolling with Fees-Free are less invested in their study which has a direct impact on the degree completion rates.

November

- NZ Herald reporter Heather du Plessis Allan provided an opinion piece critical of the governments first year Fees-Free. She suggests the policy is an expensive flop, with actual numbers enrolled 38,000 lower than the projected 80,000. Otago Daily Times had published a similar article.

December

- Derek Chang from the NZ Herald reported from Parliaments’ Education and Workforce select committee held on December 12, where members were reportedly grilled about the Fees-Free policy. A number of Written Parliamentary Questions (WPQs) and direct questions from opposition members were asked around the number of students enrolled that later withdrew, or failed their courses. This prompted questions about the monetary value of the loans these students drew down. It was reported that the value of these loans are being misrepresented.
Annex three: Scheme performance – applications and default

Loan applications

1. During quarter two, October to December 2018/19, the MSD processed 91,245 student loan applications, 7,558 (7.7%) fewer than in quarter two, 2017/18 and 1,152 (1.3%) above the Budget Economic and Fiscal Update 2018.

2. In the financial year to 31 December 2018, the number of loan applications processed was down 6,785 compared with the same period last year, and up 4,368 on the Budget Economic and Fiscal Update 2018 forecast.

3. The Half Yearly Economic and Fiscal Update 2019 is currently being finalised.

Activity

4. MSD is in the midst of its peak student application season, which runs from October to March. Around 70% of student loan and allowance applications are received between October and February.

5. The annual ‘call to action’ campaign commenced on 16 September, encouraging students to apply online and provide their supporting documents, by the target date of 16 December. The wider campaign continues into 2019, assuring students they haven’t missed out, and generating a sense of urgency to finalise their application and avoid any delays to the start of payments.

6. From 16 September to 29 December MSD processed 97,740 student loan applications. By 29 December, 70% of those received by the target date of 16 December, were finalised (approved or declined) or awaiting verification of study as the final stage to confirming entitlement.

Default

Overseas-based borrowers compliance categories

7. Compliance of overseas-based borrowers is broken down into three categories:

   i. **Compliant and paying** – All overseas-based borrowers in this segment are meeting their obligations, including repayments, or meeting part of the repayment obligation but have existing default, even if that default is under an instalment arrangement. A defaulter will come into this segment if they have made a repayment in the last six months and includes those who are under an instalment arrangement.

   ii. **No payment** – All overseas-based borrowers in this segment have been in contact with IR in the last six months but have not yet made payments towards their default. This segment also includes overseas-based borrowers for whom IR do not hold current or valid contact information.

   iii. **Payment not yet due** – The overseas-based borrowers in this segment have payments that are due at a future date. This group includes overseas-based borrowers who are on a one year repayment holiday.
Legal Cases

New Zealand

8. Legal action is reserved for the most non-compliant of borrowers. Borrowers increasingly choose to work with IR rather than see legal process through to enforcement. A borrower will be adjudicated bankrupt in the next quarter unless negotiations prove successful.

Overseas Based

Australia

9. While some borrowers clear their default once legal action commences, new cases are initiated at the same time. Legal activity can take a number of months to reach an outcome.

10. Outcomes to note:
   i. Lump sum payments totalling $125,776.80.
   ii. Case defended in NZ Court where negotiations net a lump sum and ongoing instalment arrangement.
   iii. A garnishee order is in place on a borrower’s salary/wages.
   iv. The sale of property for an ongoing proceeding took place at the end of January where a significant dividend will be paid to IR shortly after.

United Kingdom

11. IR has applied for substituted service for two borrowers who have actively (and continuously) avoided service.

Arrests at the border

12. Arrests to note:
   i. 1 arrest was made in the quarter. The customer has agreed to an instalment arrangement.
   ii. A borrower paid off their loan in full, more than $50,000, to avoid an arrest warrant.
Annex four: Upcoming report, Cabinet papers and OIA requests

<table>
<thead>
<tr>
<th>Title</th>
<th>Description</th>
<th>Report to Ministers</th>
<th>Consultation</th>
<th>Minister</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Annual General Adjustment to Rates and Thresholds for Financial Assistance</td>
<td>Report to joint Ministers seeking their approval of the new rates and thresholds that have been adjusted for inflation from 1 April 2019.</td>
<td>MSD</td>
<td>Treasury, Ministry of Education, Ministry of Health, Inland Revenue, Oranga Tamariki—Ministry for Children, Veterans’ Affairs, Ministry of Housing and Urban Development</td>
<td>Robertson, Twyford, Hipkins, Sepuloni, Clark, Mark and Martin</td>
<td>Drafting</td>
</tr>
<tr>
<td>Orders in Council and Amendment Regulations for the Annual General Adjustment of Rates and Thresholds</td>
<td>LEG paper to approve the orders in council and amendment regulations needed to put the new rates and thresholds through.</td>
<td>MSD</td>
<td>Treasury, Ministry of Education, Ministry of Health, Inland Revenue, Oranga Tamariki—Ministry for Children, Veterans’ Affairs, Ministry of Housing and Urban Development</td>
<td>Sepuloni</td>
<td>Drafting</td>
</tr>
</tbody>
</table>

s 9(2)(f)(iv)
### Ministerial requests

<table>
<thead>
<tr>
<th>Request</th>
<th>Date received</th>
<th>Agency</th>
<th>Status</th>
<th>Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student regarding application declined for not meeting performance. Additional performance information provided and Ministerial response no longer required.</td>
<td>21/11/18</td>
<td>MSD</td>
<td>Completed</td>
<td>CS /18/1760</td>
</tr>
</tbody>
</table>

### Official Information Act requests

<table>
<thead>
<tr>
<th>Request</th>
<th>Date received</th>
<th>Agency</th>
<th>Status</th>
<th>Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>$9(2)(a)$ - Total amount of student loan debt owing for overseas-based borrowers and the principal</td>
<td>10/10/18</td>
<td>IR</td>
<td>Complete</td>
<td>N/A</td>
</tr>
<tr>
<td>$9(2)(a)$ - how many times has a student loan debtor in Australia lost their primary home due to outstanding student loan debt being pursued in Australian courts and/or through bankruptcy</td>
<td>17/10/18</td>
<td>IR</td>
<td>Complete</td>
<td>N/A</td>
</tr>
<tr>
<td>$9(2)(a)$ - student loan obligations and hardship relief</td>
<td>27/11/18</td>
<td>IR</td>
<td>Complete</td>
<td>N/A</td>
</tr>
</tbody>
</table>