Student Loan Repayment Regimes

Student loans are those financial resources that governments (or public institutions) provide to students for their higher education and which have been earmarked for repayment. In principle, there are two major models on how students can repay their debt incurred through student loans. The first is the income-contingent loan repayment (ICLR), the second is the so-called mortgage style loan repayment (MSLR). In practice, systems can have characteristics of both models.

Income-contingent loan repayment schemes retrieve incurred debt through a percentage of a student's future earnings (i.e. the actual earnings of a graduate), often once the graduate's income has passed a certain threshold. The rate of repayment can be raised incrementally as earned income rises. For the borrower and lender it is uncertain when a loan will be fully repaid. The borrower, however, can be more confident that financial capacity is in place when repayments start and the repayment is adjusted (up and down) to changes in financial capacity.

Mortgage-type student loans have two distinctive features: the payment period is fixed for a certain number of years and the instalments that students have to pay are assessed beforehand, held stable and are based on the actual debt that is incurred.

Australia, New Zealand and the United Kingdom use an income-contingent loan repayment model. The features are very similar: loans are inflation indexed, repayment starts at a certain threshold, and the repayment is collected through the tax authorities but managed by the specific organisation that administers the students loans. If the income rises above the threshold, repayment is compulsory using a specific repayment rate. These rates and the threshold to which they are applied are, however, different. The United Kingdom uses a very straightforward system: one repayment rate (9 percent on income above the threshold) once one specific threshold amount (GBP 15,000 p.a.) is surpassed. Australia uses a more refined system, where tariffs vary between 4 percent and 8 percent of income depending on the income level. New Zealand's repayment rate is 10 percent on income above the threshold of NZD 16,588 (Table).[1]

In the remaining countries, all repayment schemes follow more or less the traditional mortgage structure. Debts are paid back over a certain fixed amount of time. Monthly instalments are also fixed. The Netherlands use income-related components. Repayment may be reduced for one year after a means test has been passed.

In either system various important design features can vary: the repayment period, the interest rates that are charged on loans, the management and collection of the loan and conditions that apply in case of deferment of or defaulting on the loan. In all countries a period of time is allowed to pass before repayment must begin. The length of this time period is negotiated either between the lender and the borrower or it may be stipulated by the government. The time allowed normally ranges between six months and two years. Time limits for repayment vary between five years for Belgian and Italian graduates and extend up to 25 years in Sweden and the United Kingdom. In some cases the obligation to repay the debt ends when an age limit is reached. Loan repayment in Australia, New Zealand and Canada is in principle not restricted by a time limit.

Interest rates can be set at different levels, varying from zero percent to an inflation-index rate and market-based interest rates. In practice, a zero percent rate is an exception (Italy). Inflation-indexed rates are found in the United Kingdom, Australia and to some degree in New Zealand. Some countries tie the interest of student loans to that of government bonds. In general the interest rates are below those of the common market interest rates for private loans. The period over which interest rates are charged can differ as well. Loans can be burdened with interest immediately after being initiated. Interest rates can be charged upon the conclusion of study. Or the rates apply when the actual repayment starts.

Governments can manage and collect the student loans through different organisations and mechanisms. Managing loans basically has to do with administering repayment, setting up payment schedules and determining conditions for deferment or defaulting. Collection refers to the actual repayments through a designated mechanism. Two alternatives prevail: In the case of ICLR the functions of management and collection have been separated. It is very important to

[1] The US offer an ICLR in addition to their traditional type of repayment (MSLR). Sweden has actually returned to the MSLR to decrease the probability of loan defaulting because of much longer repayment periods.

keep track of income levels, which is why tax authorities are often responsible for assessing income, the related amount of repayment and the actual collection of the money. The student loan company is responsible for providing loans. In the case of MSLR a student loan company can be responsible for both management and collection of repayment. This company can either be a public agency or a private organisation contracted for this purpose by the government. In these systems management and collection are often combined.

If payment difficulties arise, a variety of solutions are implemented. In Great Britain, Australia and New Zealand the direct debiting is automatically stopped or reduced if the income falls below the income threshold. In Sweden it is possible to apply for a reduction of the loan depending on income and the age of the applicant. In The Netherlands payment can be interrupted for up to a year depending on the income. When financial difficulties arise, the Canadian government will pay the interest payments for the debtor. In Canada it is also possible for the repayment rate to be reduced for up to 15 years.

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Repayment of public student loans

	Repayment (in relation to income)		Repayment period		Interest rate		Management of repayment	Remarks
	Rate	Conditions	Start	Duration	Level	Timing		
Income-contingent loan repayment schemes (ICLR)								
Australia	4%-8% of HRI[a)] depending on income	Income must exceed AUD 36,185 p.a.	When income threshold is reached.	No limit.	Indexed by Consumer Price Index	AD, until full repayment	Australian Tax Office	
New Zealand	10% of income above threshold	The threshold is NZD 16,588 p.a.	When income threshold is reached.	No limit.	7% p.a. (1.5% interest adjustment rate, pegged to inflation, 5.5% base interest rate).	n.a.	Inland Revenue	
United Kingdom	9% of income above threshold	Income must exceed GBP 15,000 p.a.	In May after finishing or leaving course; when income threshold is reached	Max. 25 years. The government will write off any part of the loan that is left unpaid 25 years after leaving the course.	Indexed by inflation rate.	AD	Inland Revenue	If the income falls below the threshold of GBP 15,000, the debtor will not have to make any payments until the income rises above it.
Mortgage-type student loans (MSLR)								
Belgium (Walloon)	–	–	1 April of year after finishing or leaving course.	Five years.	4% p.a. (12% as long as there is a default of repayment).	AR	Government of Walloon	
Denmark	–	–	One year after the end of the year in which the student graduates or leaves course.	Max. 15 years.	4% p.a. during course of study; after finishing: discount rate of the Danish Central Bank plus 1 percent point.	AD	Statens Uddannelsesstøtte (public agency)	
Estonia	–	–	At least one year after the borrower graduates or leaves school or university.	Twice the tuition time.	5% p.a.	n.a.	Private banks	Guaranteed by government.
Italy	–	–	n.a.	Five years.	0%	n.a.	n.a.	60% of the amount is a grant and 40% is to repay.

(Table continued 1)

	Repayment (in relation to income)		Repayment period		Interest rate		Management of repayment	Remarks
	Rate	Conditions	Start	Duration	Level	Timing		
Netherlands	EUR 45 per month	–	Two years after finishing the course of study.	Max. 15 years.	Dutch government bonds based rate (2004: 3.35%).	ID	Informatie Beheer Groep (Independent Public Agency)	When a graduate has problems repaying their debt, they can ask for an annual means test. This may reduce their repayment obligations (even to zero) for one year. All debt that remains after the 15-year repayment period is cancelled.
Poland	–	–	One year after graduation, however, not later than on October 1 of the year following the year in which the student is supposed to graduate in accordance with the schedule.	Twice the tuition time.	3.25% p.a.	n.a.	Private banks.	Guaranteed by government.
Sweden	–	–	Six months after student last received any form of study assistance.	25 years or until the age of 60.	3.1% p.a.	AD	CSN (Swedish National Board of Student Aid)	It is possible to apply for a reduction of the annual amount to 5 percent of income. As of the age of 50 the annual amount can be reduced to 7 percent of income.
Switzerland (Basel)	–	–	Dependent on individual repayment schedule.	Max. 12 years.	4.5% p.a.	AS	Department of Education.	Minimum yearly repayment rate is 1/12 of the loan amount, but min. CHF 2,400.
Canada (Ontario)	–	–	Six months after student completes studies or stops being a student.	n.a.	Variable.	AS	National Students Loans Service or private banks.	If there are repayment difficulties: A revision of terms can extend the repayment period for up to 15 years, thereby lowering the monthly payments. There are further possibilities in cases of low income: interest relief (the government pays the interest) and "Debt Reduction in Repayment"-programmes by the government of Ontario and the government of Canada. If a debtor does not make his payments, debt will be turned over to a collection agency and the default will be reported to a credit bureau; as a result, the ability to obtain credit may be impaired.

(Table continued 2)

	Repayment (in relation to income)		Repayment period		Interest rate		Management of repayment	Remarks
	Rate	Conditions	Start	Duration	Level	Timing		
United States	–	–	Federal Perkins Loan: Nine months after graduation.	Up to ten years.	5% p.a.	n.a.	Universities.	For several reasons there are possibilities for deferment and forbearance of the repayment. During forbearance, the payments are postponed or reduced, or the repayment period might be extended. Interest continues to accrue, however, and the debtor is responsible for paying it. Further MSLR available.

Note: AD: after loan disbursement. – AR: at start of repayment. – AS: after finishing studies.

[a)] HRI: Taxable income plus any net rental losses, total reportable fringe benefits and exempt foreign employment income.

Sources: Australian Government, Australian Taxation Office (http://ato.gov.au/youth/), 21 April2005; Australian Government, Department of Education, Science and Training (http://www.goingtouni.gov.au/Main/FeesLoansAndScholarships/Undergraduate/Loans/HECSHELP.htm), 21 April 2005; Bank Pekao S.A., (www.pekao.com.pl/indywidualni11.xml?/lang=US/700131-861184-93442), 21 April 2005; Communauté française de Belgique (http://www.cfwb.be/allocations-etudes/Pg004.htm), 21 April 2005; CSN (http://www.csn.se/english/ default.asp), 21 April 2005; CSN, Information on Swedish Student Aid, CSN Faktablad 2005; Department for Education and Skills, A Guide to financial support for higher education students in 2005/2006, London, January 2005; Eesti Ühispank (http://www.seb.ee/index/1301), 22 April2005; Informatie Beheer Groep (http://www.ib-groep.nl/), 21 April2005; Ministry of Social Development New Zealand, StudyLink (http://www.studylink.govt.nz/), 21 April 2005; Ontario Students Assistance Program (http://osap.gov.on.ca/eng/not_secure/repay.htm), 22 April 2005;
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