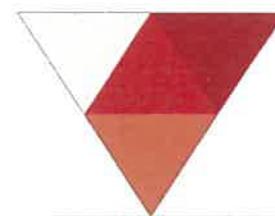


TR18. 9670



Education Report: Student Loan Scheme quarterly report July – September 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: | 25 October 2018 | Priority: | Medium |
| Security Level: | In Confidence | METIS No: | 1159429 |
| Drafter: | Christina Johnson | DDI: | s 9(2)(a) |
| Key Contact: | Andy Jackson | DDI: | |
| 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 in the period July – September 2018. As part of Ministerial governance of the Student Loan Scheme, officials report quarterly on the performance of the Student Loan Scheme. July to September 2018 is quarter one of the 2018/19 financial year.

Summary

For quarter one (1 July – 30 September) 2018/19 compared with quarter one 2017/18:

- total borrowing was up \$2.1m (1%)
- 8,442 (22%) fewer students borrowed for fees and 8,836 (8%) fewer students borrowed in total
- The number of people borrowing for living costs decreased by 2,737 (3%), however the total amount borrowed for living costs increased by \$28m as the weekly maximum people can borrow for living costs has increased by \$50
- the average amount each student borrowed for fees increased by \$12 (0.7%) and the average amount each student borrowed in total increased by \$230 (10%)
- total loan repayments increased by \$10.2 million (3.1%)
- the number of borrowers with overdue payments decreased by 0.7% and the percentage of these borrowers who are overseas based decreased by 2.4%.

The introduction of the Government's Fees-Free policy has reduced the number of people borrowing for fees. Of those who did borrow in this quarter, the average amount borrowed for fees increased.

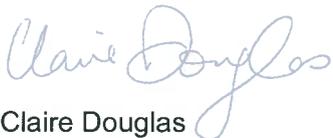
Average borrowing for living costs also increased. This was expected, given the \$50 increase in student loan living costs.

Recommended actions

The Ministry of Education recommends you:

- a. **note** that this report has been prepared with input from the Ministry of Social Development and Inland Revenue
- b. **proactively release** this paper, in consultation with the Ministry of Social Development and Inland Revenue, and with any necessary redactions under the Official Information Act 1982.

Release/Not release



Claire Douglas
**Student Loan Lead Official
Graduate Achievement,
Vocations and Career**

25/10/2018



Hon Chris Hipkins
Minister of Education

18/12/18

Student Loan Scheme at a glance – Performance changes for quarter one (July - September) 2018/19 compared to quarter one 2017/18



Total borrowing was up
\$2.1m (1%)



8836 (8%)
fewer students
borrowed in total



8442 (22%)
fewer students
borrowed for fees



The average
amount borrowed
increased by
\$230 (10%)



The average amount
borrowed for fees
increased by
\$12 (0.7%)



Total loan repayments
increased by
\$10.2m (3.1%)



The percentage of
borrowers with overdue
payments who are
overseas-based
decreased by
2.4%



The number of
borrowers with overdue
payments decreased
by
0.7%

We expected fewer students to take out loans in quarter one 2018/2019 compared with quarter one 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 payment (both in total and those who are overseas-based) decreased, the number of borrowers with overdue payment 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 first quarterly Student Loan Scheme (the Scheme) performance report of the 2018/19 financial year. The previous report covered April – June [METIS 1138617 refers].
2. This report provides you with an update on (1) Scheme performance, (2) Scheme forecast, and (3) current policy we are seeking your direction on.
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 of Social Development and the Minister of Revenue.
4. Most figures in this report are for the financial quarter one, spanning 1 July to 30 September 2018 compared with the corresponding quarter one in 2017.

Scheme performance

Table one: Borrowing over quarter one (1 July to 30 September) for 2017 and 2018

| Borrowing net of refunds (\$m) | Repayments (\$m) | |
|--------------------------------|------------------|---------------|
| | Jul to Sep 17 | Jul to Sep 17 |
| | 262.1 | 332.8 |
| | Jul to Sep 18 | Jul to Sep 18 |
| | 264.2 | 343.1 |
| Difference | 2.1 | 10.2 |

Source: MSD and IR

Loan borrowing¹

5. Total borrowing in quarter one 2018/19 was up \$2.1m (1%), compared with quarter one 2017/18. This reflects an increase of \$28m (22%) in living costs borrowing, mostly offset by reductions in borrowing for both fees and course related costs (Figure one). It also reflects a reduction in the number of borrowers across all three components (Figure two). The average amount each student borrowed in total increased by \$230 (10%).

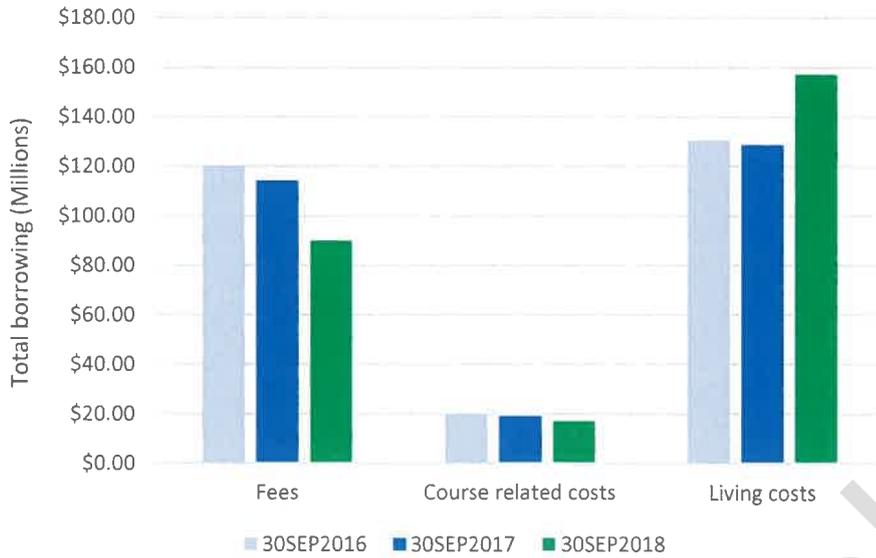


Total borrowing was up
\$2.1m (1%)

6. 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 enrolment numbers. The interaction of the Fees-Free policy and the \$50 increase in living cost is discussed in paragraphs 10 – 14.

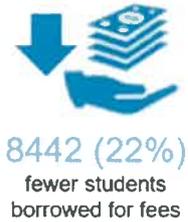
¹ Borrowing refers to the amount students take out against their loan. A borrower is anyone who has drawn from the Student Loan Scheme and who has not yet repaid in full. This includes the amount borrowed for fees, course related costs and living costs. These figures do not include the establishment fee and do not allow for repayments and refunds.

Figure one: Total student loan borrowing (\$) – quarter ending September



Source: MSD

7. Figure two shows that the number of students borrowing for fees in quarter one 2018/19 decreased by 8,442 (22%) compared to quarter one 2017/18. This decrease is due primarily to the introduction of the Fees-Free policy, which also saw a reduction of \$24m (21%) in the amount borrowed for fees during this period.



Proactively released

Figure two: Number of student loan borrowers – quarter ending September



Source: MSD

- While the number of students borrowing for living costs in quarter one 2018/19 decreased by 2,737 (3%) compared with quarter one 2017/18, the total amount they borrowed for living costs increased by \$28m (22%) (Figure one and two).
- The average amount borrowed for living costs in quarter one 2018/19 was \$2,081 per student (Figure three), up \$436 (27%) compared with the same quarter in 2017/18. The increase in the average amount borrowed can for the most part be attributed to the increase of \$50 to the maximum amount students can borrow for living costs per week.

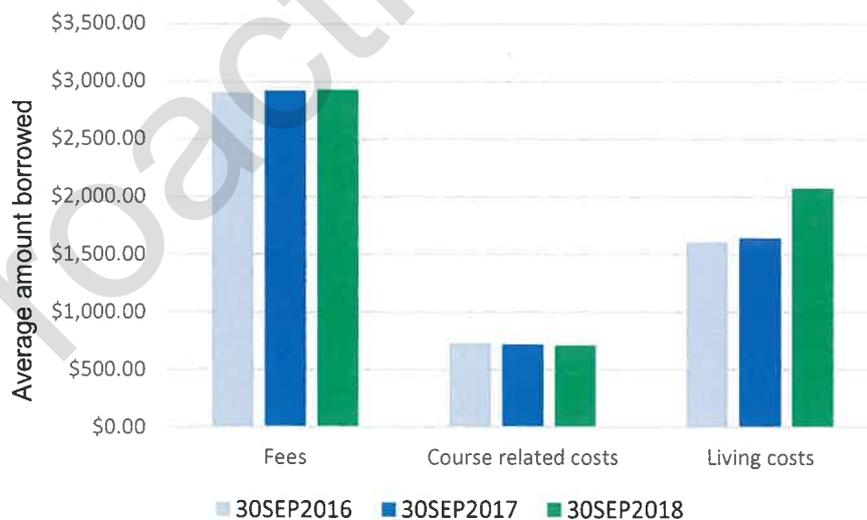


The average amount borrowed decreased by \$230 (10%)



The average amount borrowed for fees increased by \$12 (0.7%)

Figure three: Average borrowing per student (\$) – quarter ending September



Source: MSD

Interaction with the Fees-Free policy and the \$50 increase of student loan living costs

10. The introduction of the Government's Fees-Free policy has reduced the number of people borrowing for fees. The number of people accessing fees free support has continued to increase throughout the year with the start of the second semester and as some programmes with rolling enrolments began. We therefore expected to see the drop in the number of people borrowing for fees to continue in the first quarter of 2018/19.
11. The number of people borrowing for living costs also decreased. This may be partly explained by those students who have had their first year Fees-Free in 2018 opting not to borrow for living costs for this year in order to conserve their equivalent full-time students (EFTS) consumption, given the EFTS limits on borrowing.
12. 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.
13. Annex one sets out the numbers of student loan borrowers and amount for student loan borrowing across the last three quarters from January to September. The figures show that from January 2018 to September 2018:
 - there was a decrease in fee borrowing of \$192.7 million (19.5%) compared to the same period in 2017
 - \$389.1 million was borrowed for living costs, an increase of \$68.3 million (21.3%) compared to the same period in 2017.
14. s 9(2)(f)(iv)

Loan repayments

15. Quarter one is a key payment date quarter with the first overseas based borrower repayment due 30 September. Repayments made through employers were 6.6% higher than in quarter one 2017/18. The repayments made from borrowers were 4.7% lower than quarter one in 2017/18.



Total loan repayments increased by \$10.2m (3.1%)

Default²

16. The total amount of student loans in default, is \$1,326 million. The total number of borrowers in default increased by 4.8% for the quarter but reduced by 0.7% for the year. The amount in default increased by 0.4% over the quarter and increased by 11.8% over the year.³

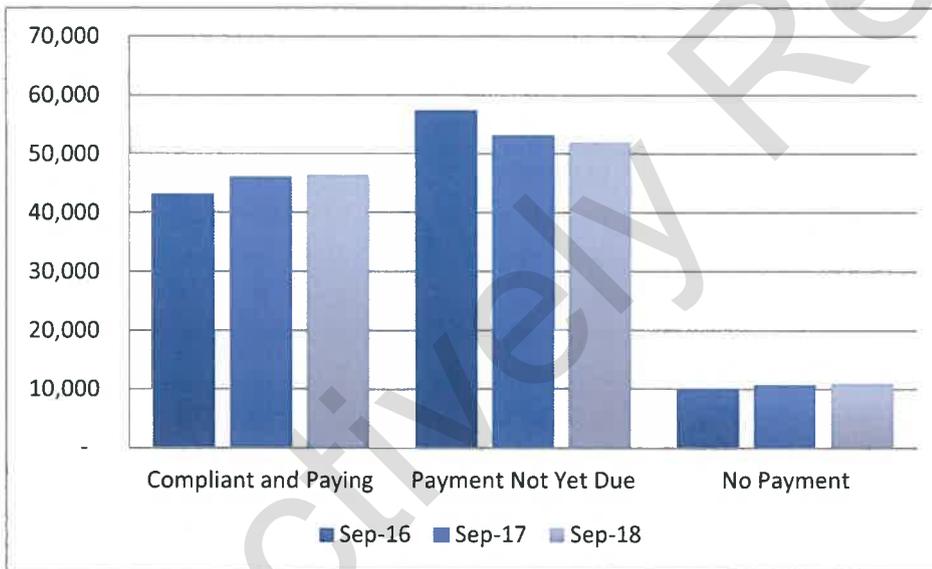


The number of borrowers with overdue payments decreased by 0.7%

Overseas-based borrowers

17. Inland Revenue reports on the compliance of overseas-based borrowers.

Figure four: Number of overseas-based borrowers by compliance category⁴



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.



The percentage of borrowers with overdue payments who are overseas-based decreased by 2.4%

² A borrower is in default if they fail to meet their loan repayment obligations. The default amount is the portion of the amount that is overdue.

³ The increase in borrowers and the amount in default is due to the February and March due dates passing for both New Zealand-based borrowers and overseas-based borrowers

⁴ 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.

19. In April, IR commenced work with the Ministry of Foreign Affairs and Trade on strengthening the operational process for borrowers who are citizens of the Cook Islands. The Cook Island election slowed this process and Inland Revenue has engaged with the new government to continue to work towards some process improvement. More recently the Government of Niue have been in contact too.

Student Loan Scheme forecast

Borrowing versus forecast

20. Quarter one 2018/19 saw a decrease in borrowing of \$8.8m (3.2%) compared to forecast. A lower than expected amount of borrowing can be attributed primarily to the introduction of the Fees-Free policy.

Table two: borrowing versus forecast for the quarter ending 30 September 2018

| | July-September 2017 | July-September 2018 |
|-------------------------|------------------------|------------------------|
| Actual vs forecast (\$) | -9.0m | -8.8m |
| Actual vs forecast (%) | -3.3 | -3.2 |

Collections performance compared with Inland Revenue's forecast and the valuation forecast

21. Quarter one 2018/19 saw a decrease of \$14.9 million (4%) compared to forecast; a lower than expected amount of repayments direct from borrowers⁶ contributed to the decline.

Table three: Net repayment versus forecast for the quarter ending 30 September 2018

| | July-September 2017 | July-September 2018 |
|-------------------------|------------------------|------------------------|
| Actual vs forecast (\$) | 5.8m | -14.9m |
| Actual vs forecast (%) | 2.0 | -4.0 |

22. Overall collection is down reaching 96% (\$343m) of forecast. Payments received directly from borrowers have impacted on the overall figure as they are only 88% of forecast. This could be related to the reduction in the number of borrowers in default.

⁵ The Ministry of Education prepares student loan forecast information for MSD twice a year (for BEFU and HYEFU).

⁶ Direct repayments come from; self-employed borrowers, overseas-based borrowers or are voluntary.

Proactive Release

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

Annexes

Annex one: Year-to-date student loan borrowing

Annex two: Student loans and the media

Annex three: Scheme performance – applications and default

Annex four: Upcoming reports and OIA requests

Annex one: Year-to-date student loan borrowing

We have included numbers of student borrowing and amount of loan borrowing from 1 January 2018. These figures partly reflect the impact of introducing Fees-Free tertiary education and training and the \$50 increase to student loans for living costs.

From January to September

- \$797 million has been borrowed for course fees; a decrease of \$192.7 million (19.5%) when compared with fee borrowing over the same period in 2017.
- the number of students borrowing for fees is 31,576 lower than for the same period.

These decreases are mainly due to the Fees-Free policy, but will be partially affected by changes in enrolment numbers and tuition fees between the years.

The table also shows an increase in living cost borrowing due to the \$50 increase to the maximum student loan living cost entitlement for the first nine months of 2018. Over this period, \$389.1 million has been borrowed for living costs, an increase of \$68.3 million (21.3%) when compared with living cost borrowing in the first nine months of 2017.

Student Loans Jan - Sep (First, second and third quarters) – Numbers and Amounts

| Loan component | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Borrower numbers | | | | | |
| Fees | 168,530 | 165,376 | 160,617 | 154,901 | 123,325 |
| Course related costs | 116,510 | 114,565 | 111,410 | 106,284 | 97,727 |
| Living costs | 100,687 | 98,152 | 95,851 | 91,794 | 88,076 |
| Repayments and Refunds | 44,536 | 43,241 | 41,723 | 38,588 | 31,639 |
| Admin. charges | 171,589 | 169,053 | 164,064 | 157,764 | 142,867 |
| Total number of students | 181,907 | 178,522 | 173,570 | 166,624 | 151,205 |
| Amount borrowed | | | | | |
| Total amount borrowed² | \$1,431,012,039 | \$1,452,031,781 | \$1,441,614,744 | \$1,412,453,911 | \$1,279,534,025 |
| Total fees | \$991,794,562 | \$1,009,688,939 | \$1,003,844,099 | \$989,746,441 | \$797,011,792 |
| Total course related costs | \$112,685,425 | \$110,855,609 | \$107,177,824 | \$101,903,658 | \$93,417,626 |
| Total living costs | \$326,532,052 | \$331,487,233 | \$330,592,821 | \$320,803,812 | \$389,104,607 |
| Total repayments and refunds | -\$78,269,334 | -\$82,303,335 | -\$81,596,572 | -\$81,450,439 | -\$75,050,731 |
| Total admin. charges | \$10,371,660 | \$10,223,520 | \$9,916,140 | \$9,525,180 | \$8,636,940 |
| Average fees | \$5,885 | \$6,105 | \$6,250 | \$6,390 | \$6,463 |
| Average course related costs | \$967 | \$968 | \$962 | \$959 | \$956 |
| Average living costs | \$3,243 | \$3,377 | \$3,449 | \$3,495 | \$4,418 |

² Not inclusive of any loan repayments or refunds.

Annex two: Students loans and the media

Media interest for quarter one included:

July

- Newshub reporter, Scott Palmer, reported that the Top 10 student loan borrowers owe more than \$370k each and these borrowers have all moved overseas. Figures provided by IRD show that these top 10 loan borrowers make owe a combined total of \$4,079,599 as of 1 June 2018. Statistics from 2016 show around 112,390 student borrowers live overseas, with an estimated \$3.25 billion of debt, and 70 percent are behind in their loan repayments.
- Newshub also reported that the threat of border arrests of student loan borrowers in default has exacerbated the problem of overseas student loan debtors failing to pay back their loan however the Labour Government is quoted as saying they were not proposing any immediate change- any changes would be longer term.
- Radio NZ reported on the Government lifting the loans cap to 10 years for long undergraduate courses. Arja Arsan from the Medical Students Association is quoted saying that they had been campaigning for these changes and the extension would have a positive impact on students directly affected.
- Radio NZ guest writer Kera Sherwood-O'Regan reported on her experiences as a Medical Student and what the student loan extension means for Māori studying medicine. She described how the current targeted entry schemes, programmes and courses are set up to make the system fairer but the student loan rigmarole was still a barrier for our taura. In her opinion the change to the student loan cap has made medicine more fair and equitable.
- NZ Herald Grant Bradley reported on how to ease the pilot shortage in NZ and internationally. Pilots are saying the cost of training and high student loans debt are worsening the shortage in their numbers. NZ Line Pilots Association (ALPA) president Tim Robinson is quoted as saying that financial and structural barriers were threatening the sustainability of pilot supply. Robinson suggested ways of increasing the sustainability of the pilot numbers which included updating the number of student loans available however this would require a change in the student loan policy. Radio NZ has published a similar article.

August

Nil

September

- Newsie, Scoop and Voxy have all reported on an Inland Revenue (IRD) press release showing that overseas based borrowers are showing a greater commitment to paying off debt. Figures are showing repayments are 40% higher than 4 years ago resulting in a slowing down of the rise in debt default. IRD say this has been partly attributed to providing a fee free option to make overseas payments.

- Thomas Coughland from the Newsroom reported findings that the Australian Tax Office (ATO) in the 2017/18 tax year received 8 requests for assistance from NZ IRD. This netted only \$10,777.44 in unpaid tax. It was reported that this figure was especially surprising as over the same period IRD collected \$1.7m in student loan debt.
- Stuff reported a story originally published in Newsroom. Newsroom reported that IRD are not dedicated to pursuing property investors who fail to comply with the bright line test as opposed to employing 64 staff collecting payment from student loan overseas borrowers, which is showing some success. Figures show a reduction in the total number of overseas borrowers with outstanding debt but no effect on the total amount owed.
- Amanda Cropp from Stuff reported that overseas student pilots are filling training spaces that NZ students can't afford. According to an industry forecast from Boeing, the Asia Pacific region will lead demand with a requirement for 261 new pilots over the next 20 years. This regional demand has increased the number of overseas students to New Zealand. Figures provided by the Civil Aviation Authority show a total of 316 commercial pilot licenses issued to Kiwi and internationals in 2014 but by last year this had dropped to 230.
- The NZ Herald reported an increase in students accessing hardship funds despite greater financial assistance being made accessible by the Government. Figures collated by NZME show an increase in applications and hardship funds given out at three of NZ's biggest Universities. The article suggests that the increase in funding to students (student allowance and living cost loans) have not made a difference to affordability. Sage Burke, Otago University student association student support manager, is quoted as saying this is mainly attributed to the rise in cost for rent.
- The NZ Herald reported both Primary and Secondary school teachers are set to strike as a result of pay negotiations. Steph Lamborn from Muritai School is quoted as suggesting the Ministry of Education could help by offering relief on current student loans.

Annex three: Scheme performance – applications and default

Loan applications

1. During Quarter 1, July to September 2018, the Ministry of Social Development processed 27,156 student loan applications, 773 (3%) more than in Q1 2017 and 3,216 (13%) above the Budget Economic and Fiscal Update 2018 forecast prepared for MSD by MoE.
2. The Ministry of Social Development's (MSD) annual student 'call to action' campaign commenced on 16 September, two weeks earlier than last year. The campaign encourages students to apply online for their student finances (allowances and loans), and provide their supporting documents, by the target date of 16 December. Students who start the year with their finances sorted are in a much better position to achieve academic success. MSD needs as many students as possible to apply early to ensure it can pay them on time. This year, as an incentive to apply and provide their supporting documents by 16 December, students who meet this deadline will go into a draw to win a 15" MacBook.

Default

Overseas-based borrowers

3. 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 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 Inland Revenue 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

Legal action is reserved for the most non-compliant of borrowers. Borrowers increasingly choose to work with the department rather than see legal process through to enforcement. A borrower was adjudicated bankrupt this quarter and the Official assignee is carrying out investigations to see if the customer has any known assets.

Overseas Based
Australia

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.

Outcomes of note;

- Lump sum payments of more than \$116,000.00;
- Ongoing bankruptcy proceedings case in Australia- Official Trustee are in the process of selling other property belonging to the customer and the remaining dividend of \$148,000.00 will be paid in due course.

Proactively Released

Annex four: Upcoming reports and OIA requests

Ministerial requests

| Request | Date received | Agency | Status | Report |
|--|---------------|--------|-----------|-------------|
| Parent re: her son's student loan application | 25/9/2018 | MSD | Assessing | CS /18/1519 |
| Parent re: assistance for a student studying overseas | 30/7/2018 | MSD | Completed | |
| Student re: review of fees for an Otago University course | 20/8/2018 | MSD | Completed | CS /18/1373 |
| Borrower: concern about the timing to refund an over payment | 30/07/2018 | IR | Completed | |
| Media: the number of FTE, and the core budget for recovery associated with Bright line testing and Student Loans | | | | |

Official Information Act requests

| Request | Date received | Agency | Status | Report |
|---|---------------|--------|----------|----------|
| s 9(2)(a) - Speaking Notes for the Minister of Revenue joint-Ministers' meeting | 2 July 2018 | IR | Complete | 18OIA266 |
| s 9(2)(a) - Individual Account information sought by tax agent | 5 April 2018 | IR | Complete | 18OIA191 |
| s 9(2)(a) - Student Loan information from the IR Annual Report 2017 | 9 May 2018 | IR | Complete | 18OIA231 |
| s 9(2)(a) - Top 10 borrowers with largest loans | 29 May 2018 | IR | Complete | 18OIA362 |