GERMAN ECONOMIC TEAM IN BELARUS

76 Zakharova Str., 220088 Minsk, Belarus. Tel./fax: +375 (17) 210 0105
E-mail: research@research.by. Internet: http://research.by/

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Student Loans: An Effective Instrument for Financing Higher Education

Summary

Student loans are the instruments to increase investment in higher education. Investments in higher education are profitable for both, for the individual student as well as for the society. For the student, the return of an investment in education consists of potentially higher individual productivity, higher income in the future and a lower risk to become unemployed. For the society, investments in higher education improve the total stock of human capital. The paper describes the basic principles of student loans, presents the peculiarities of student loan system in different countries and discusses the issue of credit risk assessment.

Contents

1. Student Loans – Basic Principles

1.1. What are student loans?

Student loans are *credit contracts that are given exclusively to students in order to enable them to finance their studies*. They cannot be given to any other group of persons or to other investment or consumption purposes. Student loans are an instrument to increase investment in higher education.

1.2. What are the benefits from investments in higher education?

Investments in higher education are profitable for both, for the individual student as well as for the society. For the student, the return of an investment in education consists of potentially higher individual productivity, higher income in the future and a lower risk to become unemployed. For the society, investments in higher education improve the total stock of human capital. This is of crucial importance for a modern economy, because it is *decisive for economic growth and for general investment activities*. A well educated labour force improves the capacity of an economy for innovation and sound economic development.

Table 1: Most important benefits from investments in higher education

For the individual	For the society
– Higher individual productivity;	– Higher general productivity;
– Higher income in the future;	– Higher economic growth;
– Lower probability of unemployment.	– Higher capacity for innovation.

1.3. Why should the state be involved in the design of student loan programmes?

Financing education is a case for governmental intervention. Apart from the fact that investments in higher education are profitable for the economy, the foremost reason is that many potential students cannot cover the costs for further education from their own or their families' sources. But the markets fails to supply the students with capital through loans, since the banks cannot assess the future income of students and therefore bear a *high credit risk*. If the distribution of financial sources would be left to pure market forces, we can expect that only the students with wealthy families get support, because they can present securities as collateral. But in order to give not only a small wealthy elite, but a wider groups of students the possibility to study, many countries have developed a *complementary system of financial support* that is at least partly covered by state funds.

1.4. Why are student loans better than other instruments for financing education?

Student loans are only one of the possible instruments that can be used to finance education for students. While "educational loans" or "study loans" are terms that denote the same thing as a "student loan", other instruments are for example stipends, family grants or deductions of educational expenses from tax burdens. All of them have advantages and disadvantages. As stipends are not paid back, they are easy to administrate. But once granted, the students may see them as permanent additional income independently from their study performance. Family grants can be easily distributed, but it is not guaranteed that the students actually receive the money. In the case of tax deductions, the support is indirect and the degree to which this is helpful depends on the income of the respective household. Those who have a low income pay few taxes and the potential benefit from deductions from tax burdens are very limited. Programmes that are based on all these three instruments are expensive for the state, because they permanently generate state expenditures without any repayments.

Against all these instruments, *student loans are superior, because a direct contract between the student and the supporting institution is set and the student*, who is confronted with future repayments, *should be motivated to study efficiently and success-*

fully. The student will only decide to take a loan, if he or she considers it a good investment for the future. At the same time, this instrument promises *efficient use of limited state funds*. The state's financial resources are invested in a proper and sound way.

Table 2: Comparison of different instruments for financing higher education

Instrument	Advantages	Disadvantages	Efficiency
Stipends	– Direct support; – Easy to administer after selection of students.	– Expensive for public budgets: no repayments.	0
Family grants	– Easy selection: all families with children in education	– Indirect support; – Expensive for public budgets: no repayments.	–
Specific tax deductions	– Easy administration through tax offices.	– Indirect support; – Expensive for public budgets: no repayments.	–
Loans	– Direct support; – Financially sustainable because of repayments; – High incentive to finish studying quickly.	– Students must accept having debts.	+

1.5. General characteristics of student loan programmes

Student loan programmes differ in respect to the following characteristics:

1. Who can apply to the programme? The initial allocation of loans can be tied to the admission as student alone or to further criteria, for example the social background of the family or the achievements in secondary school or university. It can be given to students before they start studying, to students in the first year or to students in later periods of their studies. Additionally, it is a question whether the students of all higher education institutions (universities and colleges) can apply for the student loan or whether certain groups (e.g. private universities) or certain faculties are excluded from the programme.

2. What should be covered by the money? The money distributed by the loan programme can either only cover the fees or as well the living costs during student life.

3. What are the loan conditions? The loan programmes differ with respect to the maximum available amounts, the interest rates, the periods for repayments and the flexibility of the arrangements during the course of the loan.

4. Does the programme include stimuli with respect to the study behaviour? The system can set a number of stimuli (for example reduction of repayment amounts or reduction of interest rates) in order to make it attractive to the student to perform well.

5. Which institutions are involved in the programme? The financial sources can be allocated directly through private banks, through promotional banks (Förderbanken) or through separate central or regional institutions. Another way is to allocate the money to the schools and universities who should themselves decide upon the distribution to the students. Depending on the status of the institutions, the programme can be private, public or mixed (public and private institutions involved).

6. Is the programme designed to avoid making losses? The programme can may run deficits every year and thereby require considerable financial sources from the state or it can be designed to be sustainable. This means that deficits are avoided and after the initial investments, few or no additional expenditures accrue for the state.

7. Who should bear the credit risk? The credit risk can be localized at private (or promotional) banks or at public budgets.

2. Student loan systems in different countries

Many countries have established student loan systems in the past decades. The five systems of the following selected countries are presented with respect to the criteria (1) – (7) as described in chapter 1: *Australia, the Netherlands, Estonia*, *Germany* (KfW-Studienkredit: loan programme from a state-owned bank) and *Germany* (Deutsche Bank: private loan programme).

2.1. Australia: HECS

Australia introduced its Higher Education Contribution Scheme in 1990. Within the HECS, students can get funds in order to pay for the tuition fees (not for other expenditures). In general, the tuition fees must be paid by the students directly to the higher education institutions. Students who pay tuition from their own resources at the beginning of the academic year get a reduction. Those who cannot afford to pay themselves can apply for support in the framework of the HECS. In this case, a special fund controlled by the government covers the tuition fees and transfers the money directly to the respective university. It is given as a loan that must be paid back by the student after graduation or after withdrawal.

1. <u>Who can apply to the programme</u>? The loan can be given to all students accepted in Australian universities that participate in the HECS-programme. The programme supports full-time as well as part-time students of all age. Students must have an Australian citizenship or a certain permanent visa status.

2. <u>What should be covered by the money</u>? The money does only cover the tuition fees. There is an additional programme designed to cover other expenses.

3. <u>What are the loan conditions</u>? Depending on the type of study, a loan of up to 8,170 Australian Dollars (AUD)[1] can be applied for every year (upper limit for 2006). The loan is given independently from any existing debts, securities or credit histories of the student and does not charge interest. The accrued debt is only adjusted yearly to the inflation rate.

   The repayment scheme is called the “deferred payment scheme” and is tied to the (former) student’s income. As long as former students receive an income below a minimum they have no pay-back obligation at all (38,148 AUD in 2006). But as soon as they cross this line, a share of the income is directly deducted from the income by the tax office. This share appears like an extra tax, rises progressively and lies between 4 and 8 percent. There is no special repayment period. As long as there is a debt, the tax office deducts the payments from the income.

4. <u>Does the programme include stimuli with respect to the study behavior</u>? No. There are only deductions for early repayment.

5. <u>Which institutions are involved in the programme</u>? Three institutions are involved: the universities, the Department of Education, Science and Training of the Australian Government and the Australian Tax Office.

   Students apply for a loan at the university where they want to study. Some universities organize their admission procedure using a regional “Tertiary Admission Centre” (TAC). In this case, the loan application is given to the respective TAC. The university/TAC informs the Department of Education, Science and Training of the Australian government which transfers the applied loan sum to the university. At the same time, the amount of the HECS-loan is reported to the Australian Tax Office. It is the Tax Office that records the debt and organizes the repayments.

[1] The exchange rate as of 29 October 2007 was 0.919 AUD/USD. Source: www.oanda.com.

6. Is the programme designed to avoid making losses? No. If all loans were paid back in accordance with the regular scheme, the real value of the invested money is kept constant due to adjustments to the inflation rate. But as a whole, the programme runs deficits every year.

7. Who bears the credit risk? The credit risk is completely covered by the state budgets.

2.2. Netherlands

The Netherlands introduced a general system of tuition in the course of the 1990s. The universities ask for tuition fees of different range. Together with the general tuition fees, a combined system of grants and loans has been introduced.

1. Who can apply to the programme? All full-time students under age 30 can apply for the study grant programme. The applicants must be Dutch citizens or have a certain long-term visa status.

2. What should be covered by the money? The money should cover the tuition fees as well as the basic expenditures for living (accomodation, food, clothes, etc.).

3. What are the loan conditions? There are three components: the basic grant, the supplementary grant, and a student loan. All students are entitled to receive a basic support of 248 Euro[2] per month (in 2007), which is independent of parental income, but is paid at a lower rate if a student is living with his or her parents (89 Euro/month in 2007). Students are also eligible for a supplementary support up to 228 Euro monthly based on a parental income test. Students are also eligible for an additional loan (max. 266 Euro per month), available without an income test, on which they pay an interest rate roughly 2 percentage points above the rate on long-term government bonds (3.7 % in 2007). Adding up the maximum amounts of all three components, the loan can be up to 742 Euro per month. As the usual fee for tuition is approximately 1,500 Euro per year, the student support in the Netherlands can be considered to be relatively generous, since more than 600 Euro per month are left for personal expenditures (accommodation, food, etc.).

   Originally, the interest is charged on loan and the basic and supplementary grants from the time that they are disbursed (that is, from the first monthly payment in the student's first year). Repayments begin two years after the student leaves higher education. The repayment is done at equal monthly rates. These repayment terms, however, are imposed only where the person has an income above some threshold. A person with a lower income can request to make lower repayments; for very low incomes, repayment is zero. This process has to be repeated each year. Thus people with income below the threshold make income-contingent repayments. Any loan not repaid after fifteen years is forgiven.

4. Does the programme include stimuli with respect to the study behaviour? The Dutch system is performance-related. The basic as well as the supplementary support is originally given on the base of a loan. But this loan is converted into a grant that has not to be repaid, if the student meets certain performance criteria. The most important one is that the regular duration of the study is not surpassed. The loan component of the programme remains a loan throughout the repayment term.

5. Which institutions are involved in the programme? An institution called the Informatie Beheer Groep which has been established by the Ministry of Education, Culture and Science takes over a lot of organizational tasks in the higher education. Among organizing the application process and the central distribution of student places, running the state examinations and controlling the quality of education, it

[2] The exchange rate as of 29 October 2007 was 1.43989 EUR/USD. Source: www.oanda.com.

carries though the financial support programme for students. No other institutions than the IB Groep are involved in the system.

6. Does the programme avoid making losses? No, it permanently runs deficits.
7. Who bears the credit risk? The credit risk is completely taken over by public budgets.

2.3. Estonia

Estonia introduced a student loan programme in 1997. In 2003, the programme was reformed. There are two types of support. One type is a performance related grant and is distributed by the universities themselves to the best students. This grant is non-refundable. The other type is a loan programme that is independent from the student's performance and the financial situation of the student. Only the loan programme is described in the following lines.

1. Who can apply to the programme? Estonian citizens or permanent residents have the right to obtain a student loan from the government's programme as long as they are studying in a programme whose duration is more than nine months and are enrolled full-time in a legally recognized public or private higher educational institution.
2. What should be covered by the money? The loan is very tight. It is supportive for the student, but it does neither cover the living expenditures nor the tuition fees.
3. What are the loan conditions? The maximum student loan amount for the 2005/2006 academic year was 20,000 Estonian kroons (EEK)3 and the interest rate was set at 5 % per year.

   The loan is only given to those who can prove to have a collateral. The collateral of the student loan is usually a surety given by two, at least 18 years old citizens of the Republic of Estonia or persons with a temporary residence permit or a real estate located in Estonia who prove to have a regular income over the last 3 months.

   A student has to start repaying the loan and the interest no later than one year after completing or discontinuing his/her studies. The repayment must be done in equal monthly payments in a period that is 2 times as long as the study period.
4. Does the programme include stimuli with respect to the study behaviour? No.
5. Which institutions are involved in the programme? The loan can be applied for in several private banks that have a contract with the government for participation in the programme. If the repayment works without complications, no other institution is involved. Only if the repayment is interrupted or cancelled, the Ministry of Finance is involved.
6. Does the programme avoid making losses? Considering the average inflation rate of 3-5 % per year, the student loan programme is not meant to generate profits. On the other hand, it is not a burden for the bank involved. It can be used rather as an instrument for a bank to attract new customers. Also the government does not need to spend substantial amounts every year. The programme can be considered to be sustainable.
7. Who bears the credit risk? Banks issue student loans against the state guarantee and individual security provided by the student (two co-signatories, real estate or shares). The state guarantees the full amount of loan borrowed by a student. If the interest rate charged by a bank is higher, the state subsidizes the difference. The individual responsibility to repay the loan is also cancelled if the recipient becomes

[3] The exchange rate as of 29 October 2007 was 0.09201 EEK/USD. 1 USD was equal to 10.869 EEK. Source: www.oanda.com.

disabled and has lost or nearly lost his or her capacity to work as the result of the disability. However, both in the case of debtor's death and disability, the bank that has issued the loan has the right to demand that the state repays the loan.

2.4. Germany: KfW-Studienkredit

There are a number of sources for student support in Germany. A general system for student support that consists of non-repayable grants and repayable loans is in place already since the 1960s (BAFöG). Despite this system, a large number of students have to take up jobs to finance their living expenses. This in turn contributes to relatively long periods of studying and to a high numbers of failures to obtain a diploma. Besides, some federal states within Germany have introduced tuition fees. As a consequence, more attention has been drawn to the idea of additional loan programmes for students in recent years and several new loan programmes have been established. Two of the lately introduced programmes are characterised here: one introduced by the *KfW*, a government owned promotional bank (*Förderbank*) and another run by the *Deutsche Bank*, a private bank. We describe first the *KfW-Studienkredit*.

1. Who can apply to the programme? Citizens of Germany or any other EU country aged 18-30 who study full-time in recognized German universities.
2. What should be covered by the money? The loan should cover the basic costs for living during the period of study.
3. What are the loan conditions? The loan can be between 100 and 650 Euro per month. The amount can be adapted to the actual needs of the student twice a year. The maximum accrued debt can be up to 54,600 Euro. The interest rate varies during the credit contract and is based on the EURIBOR for 6 months plus a margin (flexible interest rate). At the moment, it is at 5.95 %. The borrower is guaranteed a maximum interest rate for the following 15 years (presently 8.38 %).

   There are three phases: first a payment period, then a waiting period and finally a repayment period. The payment period is usually 5 years, but can be extended to 7 years. The waiting period is at least 6 months but can be extended to 23 months at the maximum. Then the repayment period starts which can last up to 25 years.

   No collateral has to be presented to the KfW. The Studienkredit can be combined with other student support programmes such as the BAFöG.
4. Does the programme include stimuli with respect to the study behaviour? The students have to present proof that their study progress is in line with the general time schedule of the study programme. If they are reluctant, the payment is stopped by the KfW.
5. Which institutions are involved in the programme? At a first stage, students have to visit the KfW online portal, fill out all the necessary forms by themselves and print them. Afterwards, they have to meet with a cooperation partner of KfW for this programme. The cooperation partner confirms the identification of the applicant, checks the contents of the forms and sends the forms to the KfW. Cooperation partners are some banks, but also the Studentenwerk (a student union), which has an office in every university in Germany. The loan accounts are pure online accounts. This implies relatively low running costs, but also high investment cost for developing the necessary software. As there are no state guarantees, no governmental institution is involved except for the KfW itself.
6. Does the programme avoid making losses? The programme is meant to neither generate profits nor losses to the KfW. It is expected that after the initial phase, the new loans can be given on the base of the capital that returns from older loan contracts. The programme is designed to be sustainable.

7. Who bears the credit risk? The credit risk stays with the KfW. As a government-owned bank, it has excellent conditions for refinancing the loan.

2.5. Germany: db StudentenKredit

Many private banks in Germany have introduced loan programmes after the introduction of tuition fees in several universities. As an example the *db StudentenKredit* of the *Deutsche Bank* is portrayed.

1. Who can apply to the programme? All students in recognized German universities that are younger than 30 years old can apply for the db StudentenKredit. Applicants must have German citizenship or have a permanent visa status and live at least two years in Germany.
2. What should be covered by the money? The loan should cover all basic living expenses as well as the tuition fees.
3. What are the loan conditions? Students can apply to a loan of up to 800 Euro per month for a maximum period of 60 months. Therefore, the maximum loan sum can be 48,000 Euro. The monthly rate can be changed during the payment period of the contract. The interest rate can change, depending on the development of the financial markets. Presently, the nominal interest rate is at 5.25 % per year (5.90 % effective interest rate).

   The repayment may start up to 12 months after graduation and can last for a maximum period of 12 years. The student and the bank agree on an individual repayment plan, extraordinary payback is always possible.
4. Does the programme include stimuli with respect to the study behaviour? Students have to present a time schedule for their studies. During the study period, the bank can ask for proof of progress. In case of discontinuation of the studying, the student loan is immediately quitted by the Deutsche Bank and the loan is transformed into a consumer loan with much higher interest rates.
5. Which institutions are involved in the programme? No other institution than the Deutsche Bank is involved.
6. Is the programme designed to avoid making losses? According to the bank's staff, the programme is designed to neither generate profits nor losses. But the bank can use the loan as an instrument for customer attraction and/or retention.
7. Who bears the credit risk? The credit risk is completely taken over by the Deutsche Bank.

In appendix, a table is presented with an overview of the five selected programmes.

3. Credit risk and the design of the programme

3.1. Credit risk

The credit risk is defined as "the potential that a bank borrower fails to meet its obligations in accordance with agreed terms."[4] This may refer to the capital given to the borrower or the interest expected to be paid by the borrower or both, the capital and the interest. In all cases, the borrower cannot pay back the money that he or she agreed to pay back.

The assessment of the credit risk is a central point in the design of every loan programme. The success of a programme depends whether the credit risk has been estimated well enough.

[4] BIS (Bank of International Settlement): "Principles of the Management of Credit Risks"; July 1999. Source: www.bis.org/pub/bcbs54.pdf.

The credit risk determines the reliability of the flow of repayments. With a low credit risk, the reliability of the repayments is high and it can be expected that only little amounts or none of the capital gets lost. It is also true that the lower the credit risk, the higher the possibility to offer favourable loan conditions to the borrower.

On the other hand, a high credit risk results in unreliable flow of repayments. We can expect a high share of the capital to be lost. In this case, no generous loan conditions can be offered but only tight loan conditions (high interest rate, limited maximum loan amount, etc.) can be agreed upon.

low credit risk	=>	reliable flow of re-payments	=>	limited necessity to inject fresh capital	=>	possibility to offer good loan conditions
high credit risk	=>	unreliable flow of repayments	=>	significant necessity to inject fresh capital	=>	no possibility to offer good loan conditions

A loan programme is sustainable, if the flow of repayments from old contracts is high enough to finance the loan sums of new contracts. In this case no more additional financial sources are needed after the initial establishment of the programme. But if the total repayments every year are lower than the total loan sum of the new contracts, the programme runs a deficit.

It is not possible to set the loan conditions such as the maximum loan sum, the interest rate, or term for repayments without assessing the credit risk. If the credit risk is ignored, the programme may end up as a bottomless pit, either requiring ever more fresh capital or leading to the cancellation of the programme.

The assessment of the credit risk is a difficult task. The general credit risk can be divided in several risks depending on the problem that causes the failure. Within the framework of a loan programme, all the different risks must be assessed or at least taken into account when estimating the overall risk.

Table 3: Different types of credit risks[5]

Type of Risk	Explanation	Example
Solvency Risk	The borrower goes bankrupt and does not have any assets that could be a base for repayment.	The student runs an enterprise after graduation, but without success. He looses all his money and does not have anything to pay back the obligations.
Liquidity Risk	The borrower is generally in the position to pay back the loan but cannot do this on the target dates.	The student is generally successful after graduation, but cannot keep one of the dates for repayment.
Security Risk	The borrower's assets that are meant to secure the credit diminish in value.	The student provided an apartment as loan collateral, but it lost its value because of fire.
Interest Rate Risk	The market interest rate rises above the interest rates of the credit contract. This poses a problem for refinancing on the side of the lender.	The interest rate for the loan was agreed to be 8 % but in the market, the general interest rate is at 11 %.
Inflation Risk	The inflation rises and the credit sum looses value. This is a problem for the lender.	The inflation rises above 20 %. The real value of the credit capital is decreasing and the lender constantly looses money in real terms.

The most important base for assessing credit risks is the income of a person. The higher the income the less a person should have problems to pay back the loan.

Often, credit histories are used as an additional source for information to estimate the solvency and the liquidity risk. If a person has so far in his life paid back all the loan that he or she took so far, the person seems reliable. It can be expected that this person pays back future loans as well and therefore the solvency and the liquidity risk is expected to be low.

[5] There are other risks that can be defined such as the country risk or the currency risk, but they do not apply in the context of student loans. The presented list refers to: Schiller/Tytko (2001): Risikomanagement im Kreditgeschäft; Schäfer Poeschel: Stuttgart, p.6.

In regular loan contracts, borrowers have to present a security as collateral. Those can be *real estate or other assets* that are easy to transform into liquid money. In case the person has problems to pay back the loan, the lender has the right to sell a share of the collateral and thereby guarantee a further flow of repayments.

The interest rate risk and the inflation risk are indirect risks. They do not depend on the agreement between the lender and the borrower but depend on *external developments. Especially in long term contracts, the both risks must be considered.*

The interest rate risk describes the risk that the interest rate go up in the course of the term of the loan. If for example a loan is set at 8 % at a time where the lender has access to capital at a rate of 4 %, the loan programme seems profitable. But if the general interest rate rises, the lender must himself pay more interest when acquiring capital. In case the interest rate for refinancing is higher than the interest rate that is fixed in the contract, the programme permanently runs deficits. The same may happen, if the inflation rises during the contract term. Generally in times of high inflation, those people having liabilities benefit from the situation and those having outstanding debts make losses in real terms. Because of both, the interest rate risk and the inflation risk, it is recommended to set a flexible rather than a fixed interest rate within the loan conditions. An international standard such as the EURIBOR can be used as a base and a mark-up can be added. The loan conditions would therefore not be set as e.g. 5 %, but rather as EURIBOR + 2 %.

3.2. Special problems to assess credit risk for students

In all kinds of credit business, the credit risk is difficult to assess. But there are some peculiarities that make it even *more difficult to assess credit risks for student loans*:

- Students have *no record in earning income*. They have usually not worked in regular contracts before entering higher education. Therefore, no present income can be taken as a base for risk assessment. It is only the future income that the student hopes to generate after graduation that can be considered. It is clear that there is much more insecurity about the future income after graduation than present income in the case of other borrowers than students.
- Students have only a *limited credit history*. They are young and usually have not taken any loans so far in their life. As there are no experiences with former credit contracts, the lender cannot estimate the reliability of a student on the base of previous behaviour.
- As a rule, students *have no assets and no own securities*. It is usually not possible to ask for securities as collateral. This makes the loan business even more risky for the lender.

All these aspects show that is especially difficult to assess the credit risk for students. None of the risks – neither the solvency risk, nor the liquidity risk, nor the security risk – can be estimated on a sound basis. The same is true for the indirect risks – the interest rate risk and the inflation risk – because student loans are long-term loans. External developments are more difficult to assess the longer the period that has to be considered.

It is even difficult to learn from other countries and other student loan programmes around the world, because they are not in place for very long and no reliable facts have been made public that could be used for orientation. *Designing a student loan programme remains a difficult task*.

3.3. Conflict of objectives

In a student loan programme, there is a conflict between social and fiscal objectives, which is connected to the problem of the credit risk. On the one hand, a state supported student loan programme should have a *social dimension*. It should enable students to enter university even though they do not have considerable own financial sources. On the other hand, the stronger the social dimension of the programme, the less predictable is the level of state expenditures that needs to be spent. *Wide access to the loan programme cannot be reached with a minimum level of costs*. If the access is given only to good students, the risk is rather low, but if access is given to every student, the risk is rather high. The wider the access to loans, the higher is the credit risk. Therefore, *social and fiscal objectives are conflicting objectives*. It must be decided to put emphasis on either one side or the other.

Social objectives: Wide access to student loans	↔	Fiscal objectives: Low and predictable state expenditures

Authors: Christopher Schumann, Ricardo Giucci

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Appendix 1.

Table 1: Overview on different loans programmes in selected countries

Programme	1. Access	2.Coverage	3. Loan conditions	4. Stimuli	5. Institutions	6. Sustainability	7. Credit risk
Australia: HECS	All full-time and part-time students in all participating universities.	Tuition fees only.	– Max. 8,170 AUD per year (equals 7,508 USD). – No real interest, only adjustments according to inflation. – Indepent from credit history. – No limitation of repayment period. – Repayments are tied to income (min. 38.148 AUD per year; equals 35,058 USD).	No.	Ministry of Education. Local tax offices. Tertiary Admission Centres.	No. Programme runs deficits.	Public budgets only.
Netherlands	All full-time students under 30 years.	Tuition fees and basic expenditures for living.	– Max. 8,904 EUR per year (equals 12,821 USD) or max. 742 EUR per month (equals 1,068 USD). – Nominal interest rate: 3.7 % (2 % above long-term government bonds). – Independent from credit history. – Repayments start 2 years after graduation and are limited to 15 years. – Fixed equal repayments amounts but reductions for people with low income.	Reductions for fast graduation.	IB Groep.	No. Programme runs deficits.	Public budgets only.
Estonia	All fill-time students.	Supportive for living expenditures and/or tuition fees.	– Max. 20,000 EEK per year (equals 1,840 USD). – Nominal interest rate of 5 %. – Collateral guarantees from two other persons. – Repayments start 1 year after graduation and lasts for twice the tuition period.	No.	Private banks. Ministry of Finance.	Yes.	Shared by private banks and public budgets.

Programme	1. Access	2.Coverage	3. Loan conditions	4. Stimuli	5. Institutions	6. Sustainability	7. Credit risk
Germany: *KfW*	All full-time students of age 18-30.	Tuition fees and basic living expenditures.	– Max. 7,800 EUR per year (equals 11,231 USD) or max. 650 EUR per month (equals 936 USD). – Nominal interest rate of 5.95 %, max. 8.38 % in 2006/07. – No collateral, but inspection of credit history. – Repayments start 6-23 months after end of payment period. Repayment period can last for up to 25 years.	Payments are stopped if students are too slow.	KfW. Institution for credit history.	Yes. Neither profits nor losses are expected.	Funds of KfW only (state-owned bank)
Germany: *db*	All full-time students under age 30.	Tuition fees and living expenditures.	– Max. 9,600 EUR per year (equals 13,823 USD) or max. 800 EUR per month (equals 1,152 USD) for up to 5 years. – Nominal effective interest rate of 5.90 % in 2006/07. – No collateral, but inspection of credit history. – Repayment starts max. 1 year after graduation and can last for 12 years.	No.	Deutsche Bank. Institution for credit history.	Yes. Neither profits nor losses are expected.	Private funds of the Deutsche Bank only.