

SUSTAINABILITY OF THE PTPTN LOAN SCHEME

19 Dec 2016 (Monday) | 8.30pm - 10.30pm
KL & Selangor Chinese Assembly Hall (KLSCAH)

Presenter: Dr. Ong Kian Ming (Penang Institute)

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The sustainability of the PTPTN loan scheme

BY DR. ONG KIAN MING

19 DEC 2016

Overview

1. History of PTPTN
2. Current Financial Position of PTPTN
3. Explanations for PTPTN's Financial Position
4. Steps taken by PTPTN
5. Projecting PTPTN into the future
6. Proposed Solutions
7. Summary...

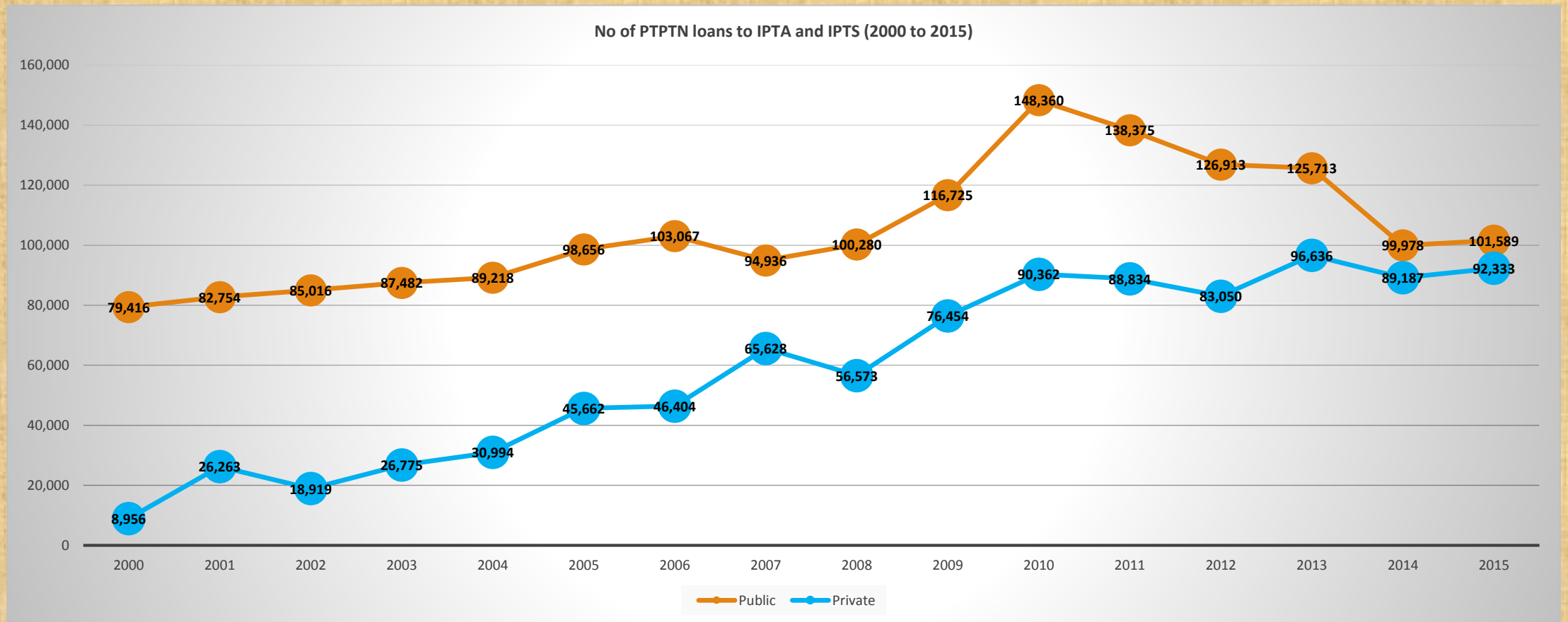
History of the PTPTN

Between 1997 and 2015, 2.5 million loans with a value of approximately RM55 billion has been approved for students pursuing their higher education studies in Malaysia; Approximately RM45.8 billion has been disbursed.

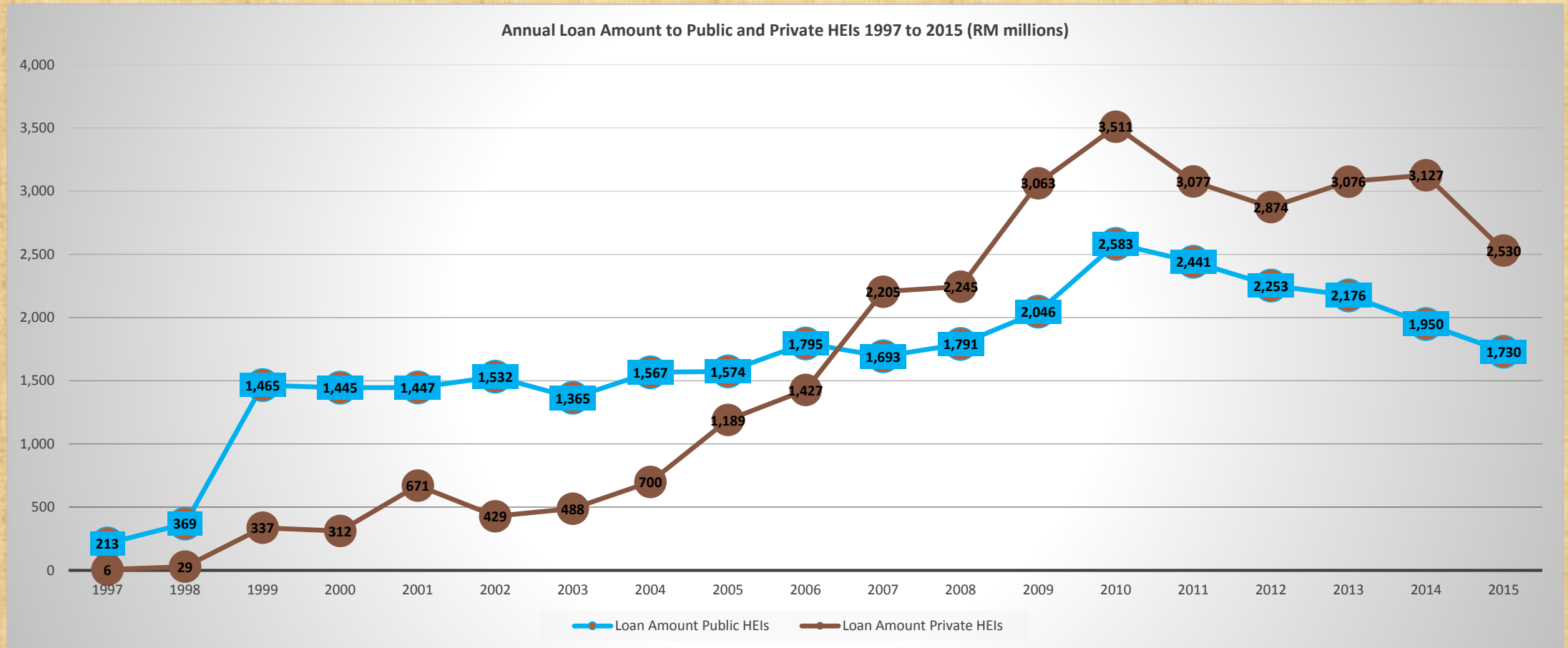
Number of PTPTN loans to IPTS look set to overtake the no of loans to IPTA. Almost 200k loans approved in 2015. 47% approved for IPTS in 2015.

Amount of PTPTN loans to IPTS already overtook IPTA in 2007. More than RM4 worth of PTPTN loans approved in 2015. 60% approved for IPTS in 2015.

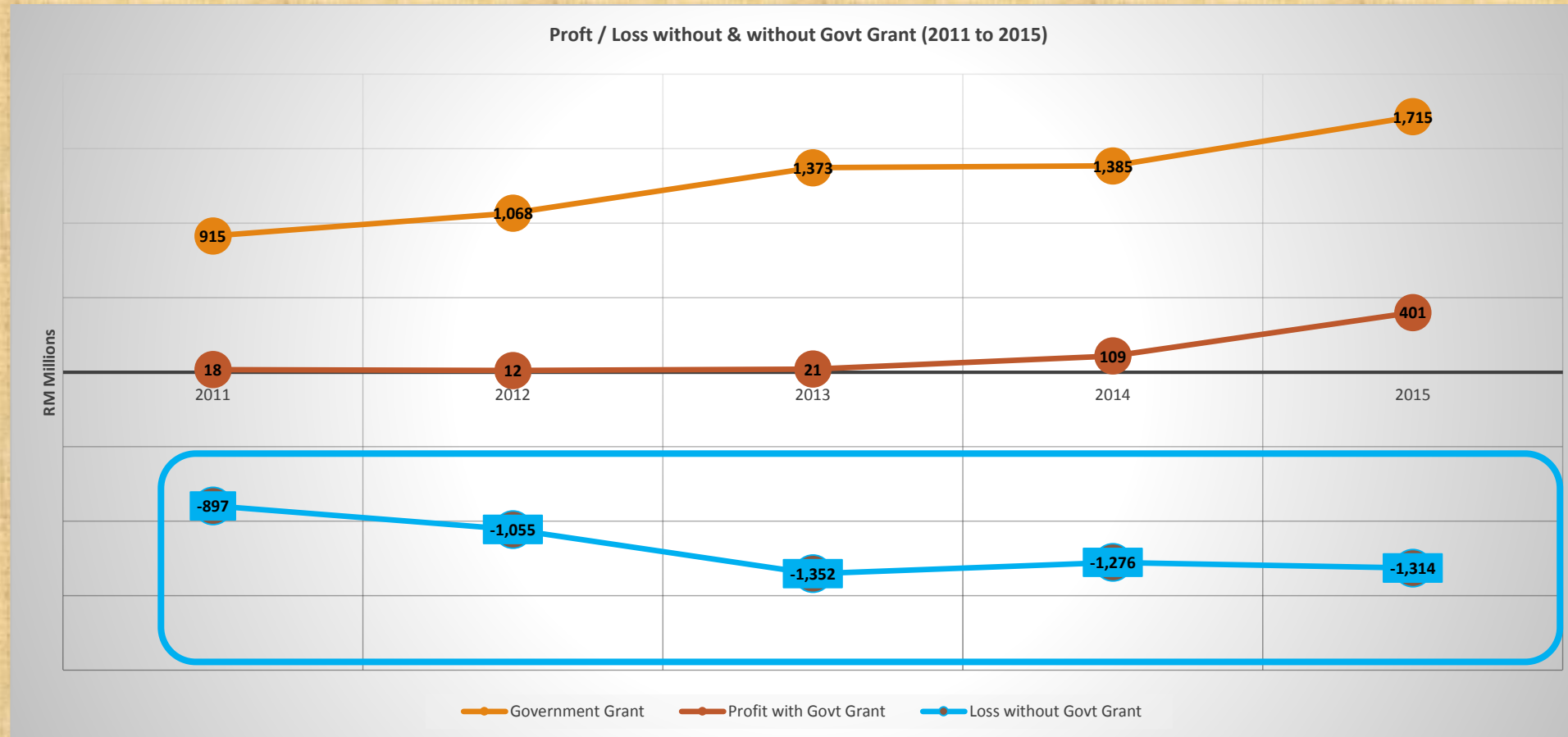
Number of PTPTN approved loans to IPTAs looks set to overtake IPTS loans in the near future



Amount of PTPTN approved loans to IPTS already exceeded IPTA loans in 2007. Gap looks set to grow.



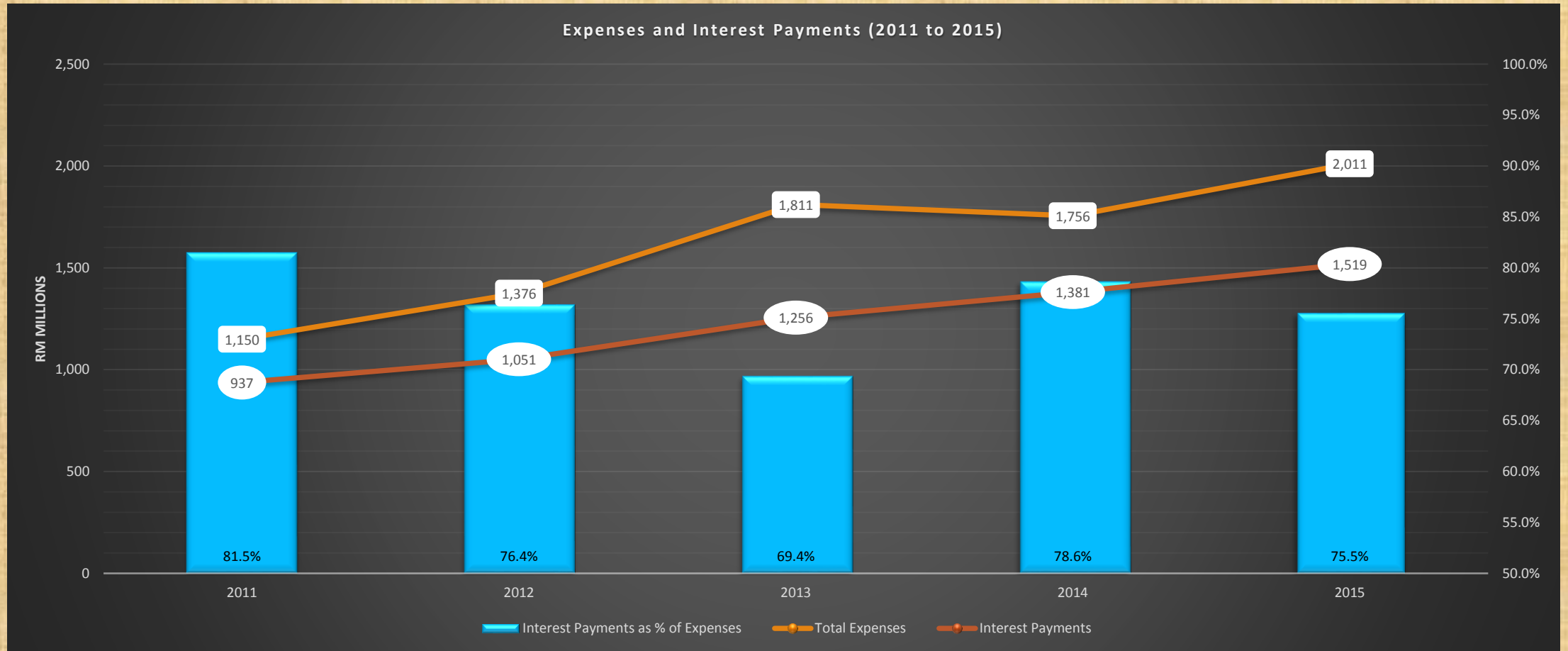
Accumulated losses of RM6.456 billion for PTPTN without government grants (2011 to 2015)



Govt grant reached a high of RM1.7b in 2015

Losses w/o government grants

Interest payments for PTPTN reached RM1.519 billion in 2015 or 75.5% of total expenses



Low repayment rates of 46.6% (up to 2015) partly explains PTPTN's current financial position

Year	Should be collected (RM million)	Has been collected back (RM million)	Percentage collected (%)
2011	5,414.4	2,956.7	54.6
2012	7,710.6	3,757.2	48.7
2013	10,080.7	4,969.0	49.3
2014	12,635.2	5,685.6	45.0
2015	15,630.0	7,140.0	46.6

According to Deputy CEO of PTPTN in a recent BFM interview, the % collected has increased to 55%

Low loan repayment rate is surprising because...

Relatively low interest rates (1% ujah interest rate on outstanding balance)

- For example, for a loan of RM10,000 with an interest rate of 1% (ujah rate) to be repaid over the course of 120 months or 10 years, the monthly payment works out to be approximately RM92 per month.

Borrowers can approach PTPTN to restructure their loans anytime

Borrowers can defer the start of the repayment period under certain conditions e.g. still studying, undergoing training or is unemployed

Possible explanations for the low repayment rates...

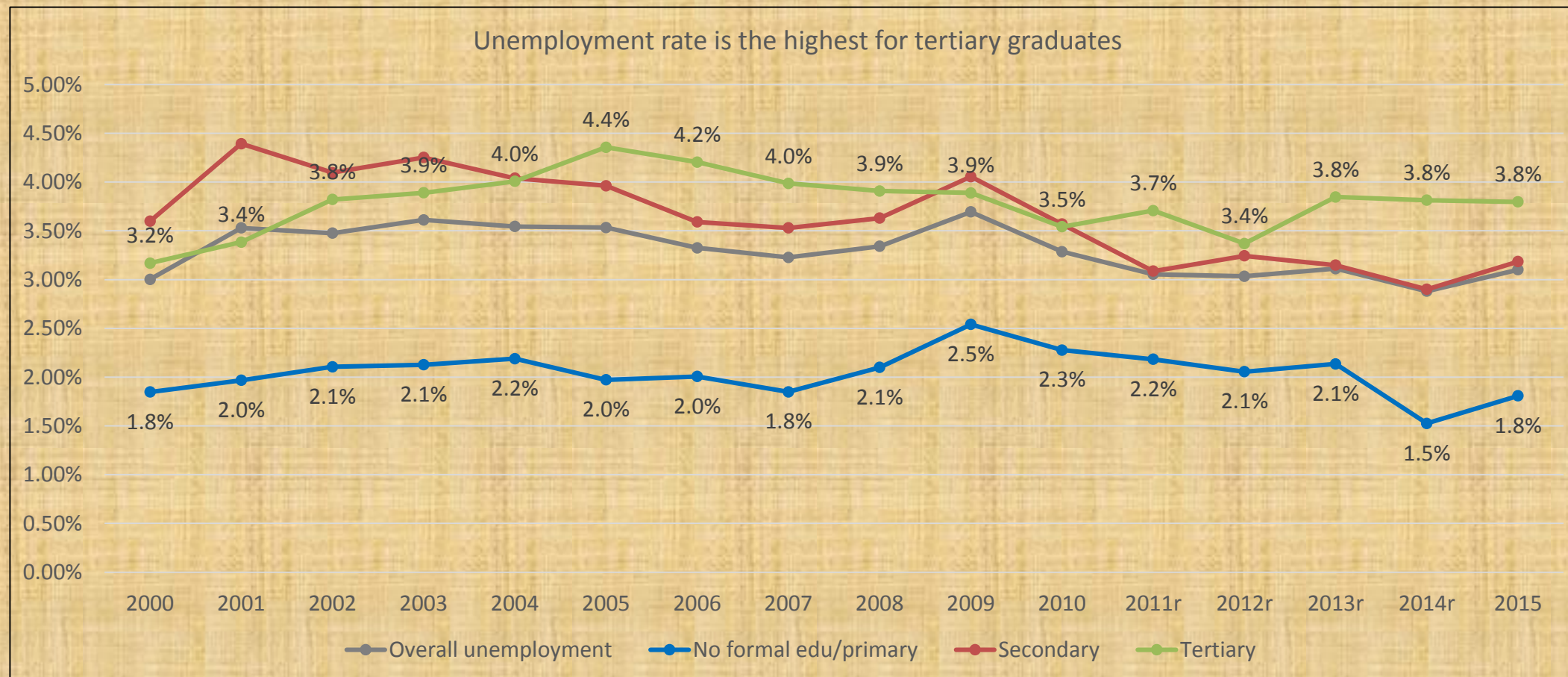
Lackadaisical attitudes towards repaying PTPTN loans

- Not a priority for some borrowers

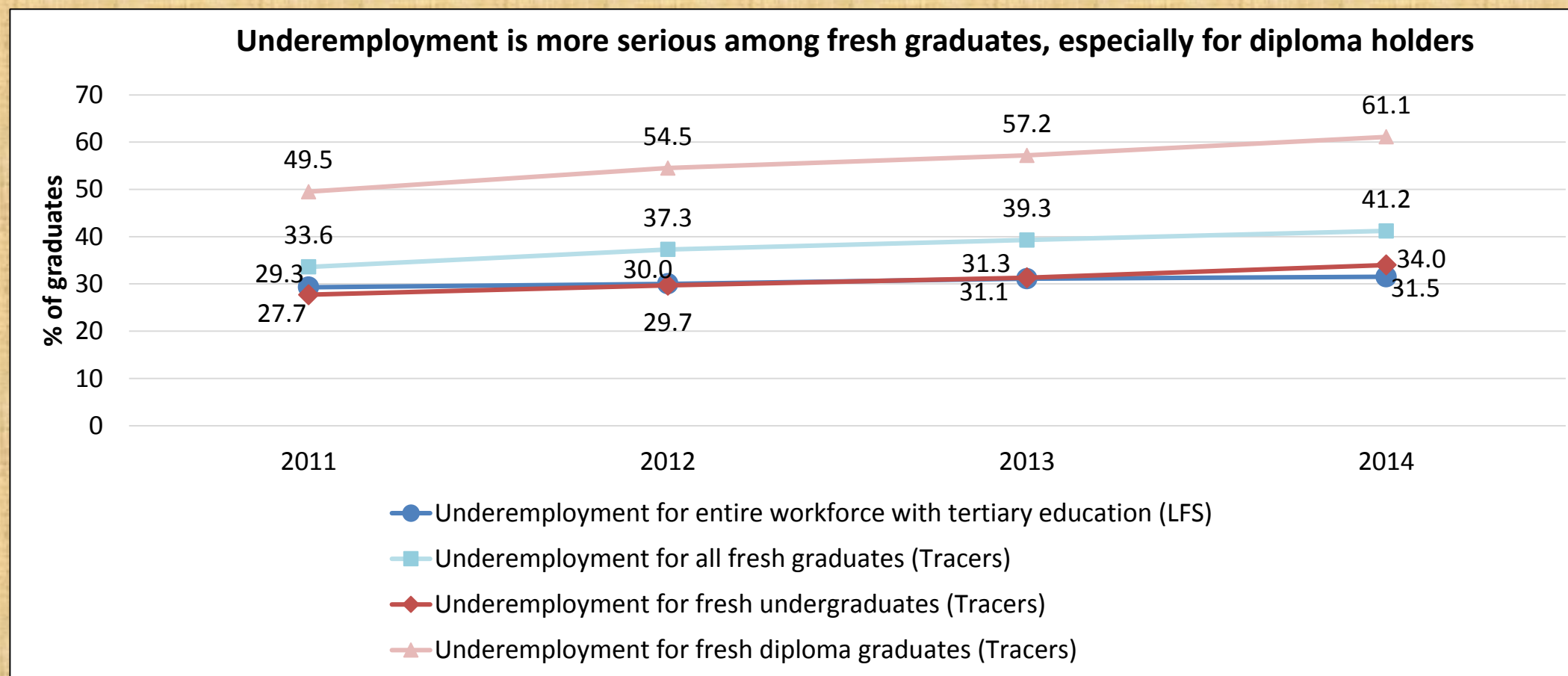
Rising unemployment and underemployment among fresh graduates

Not enough skilled jobs compared to the increasing number of workers with post secondary education

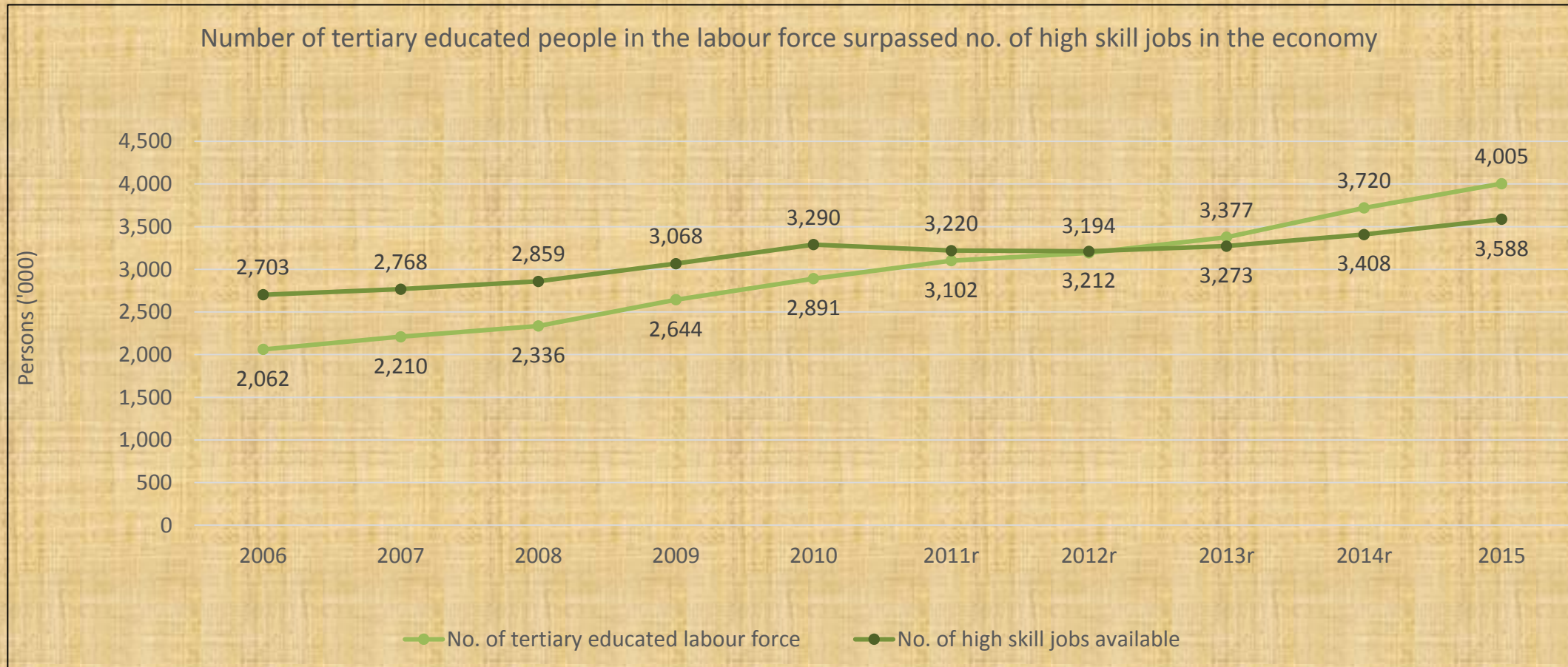
Unemployment gap between graduates & unskilled workers growing....



Underemployment is growing among fresh graduates



Number of skilled workforce surpassed the number of skills jobs in 2012



RM841m of 1st class loans waived for 30,727 students (as of year end 2015)

Item	IPTS	IPTA	Total
1st Class Loans Forgiven (RM million)	371.9	469.67	841.57
1st Class Loans Forgiven (#)	7,684	23,043	30,727
Average 1st Class Loan Forgiven (RM)	48,399	20,382	27,389

According to Deputy CEO of PTPTN in a recent BFM interview, the amount of 1st class honors waivers has increased to RM1b in 2016

Cost of 1st class honours waivers ranged from RM83m in 2011 to RM151m in 2013

Year	Cost of 1 st Class Honours Waivers for PTPTN Loans 2011-2015 (RM)
2011	83,101,207
2012	121,324,463
2013	151,647,701
2014	90,142,316
2015	131,539,410

RM360.7 million spent on 20% and 10% PTPTN discounts from 2012 to 2015

RM Million	2012	2013	2014	2015	Total
Total	12.4	179.8	45.0	123.5	360.7

1st class waivers and PTPTN discounts are not progressive policies and creates perverse incentives

- Students from middle and upper class families usually over represented among 1st class honours students. Furthermore, 1st class honours students are those who are most likely to find good paying jobs which will allow them to repay their PTPTN loans
- Students who can pay up their PTPTN loans in one go are most likely to be either high income earners and / or from relatively well-off families. The rich get to enjoy these discounts, not the poor.
- Similarly, students who have been servicing their loans for 12 months consecutively are most likely to be in a position to continue to service these loans. The 10% discount is a 'bonus' that cannot be enjoyed by those with lower salary jobs who may have been forced to miss one or two repayments because of their economic situation.
- Gives the perverse incentive for some who can afford to service their PTPTN loans to defer payment until they get to enjoy the 20% discount! For example, according to the 2013 PTPTN Annual Report, 4,469 borrowers who were initially blacklisted for non-payment of the PTPTN loans repaid their outstanding loans in one sum in order to obtain the 20% discount!

Low repayment rates, 1st class honours waivers & loan discounts main reasons for PTPTN's financial position

Low repayment rates caused by the number of factors including lackadaisical attitude towards servicing loans, not enough skilled jobs for graduates, underemployment and unemployment among graduates...

Of the RM15b that was supposed to be collected at the end of 2015, only 46% had been collected.

1st class honours waivers cost RM841m at the end of 2015. This sum is expected to increase as the number of Malaysian students in IPTS increase along with the school fees.

20% and 10% PTPTN loan discounts costs RM360 million in from 2012 to 2015.

PTPTN's financial position will worsen if these challenges are not addressed.

PTPTN has taken the following steps to improve its financial position

1. Introducing the National Education Savings Scheme / *Skim Simpanan Pendidikan Nasional (SSPN)*
2. Increasing the number of PTPTN offices and payment options
3. Reducing the maximum loan amount for IPTA and IPTS courses
4. Direct deduction from the salaries of civil servants who owe PTPTN money
5. Usage of the Employees Provident Fund (EPF) to pay back PTPTN loans
6. Introducing Income Contingent Loan Repayment (ICLR) for civil servants
7. Blacklisting PTPTN defaulters and preventing them from leaving the country
8. Credit Blacklist for PTPTN defaulters

SSPN accounts are attractive to the savers but doesn't necessarily improve PTPTN repayment rates

Account holders can enjoy tax relief assessment on current year savings for up to RM6,000 per year, free *takaful* coverage for depositors with over RM1,000 in their accounts, matching grants for families with monthly incomes of less than RM2,000 a month for up to RM10,000, competitive dividend rates (4.25%) and finally the chance to win prizes from a yearly lucky draw as well as a quarterly draw for new account holders.

But SSPN savings cannot be compelled to be used to pay back or service PTPTN loans

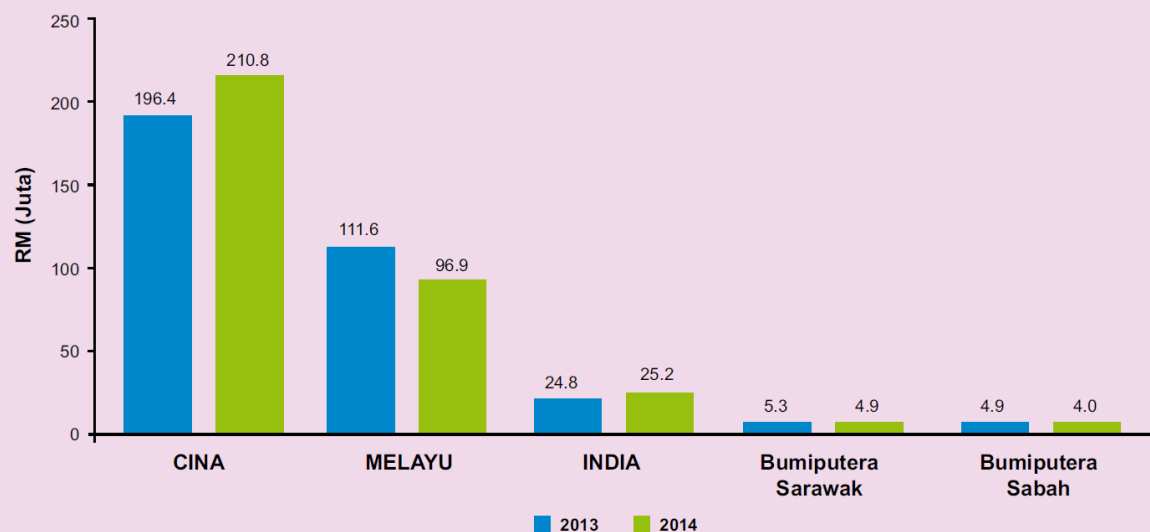
May be helpful in addressing some of the funding gap of PTPTN in the short term but may prove to be a financial burden in the long term because of the relatively high interest rates (compared to fixed deposit rates in banks)

Number of SSPN accounts have double & accumulated deposits have almost quadrupled from 2011 to 2015

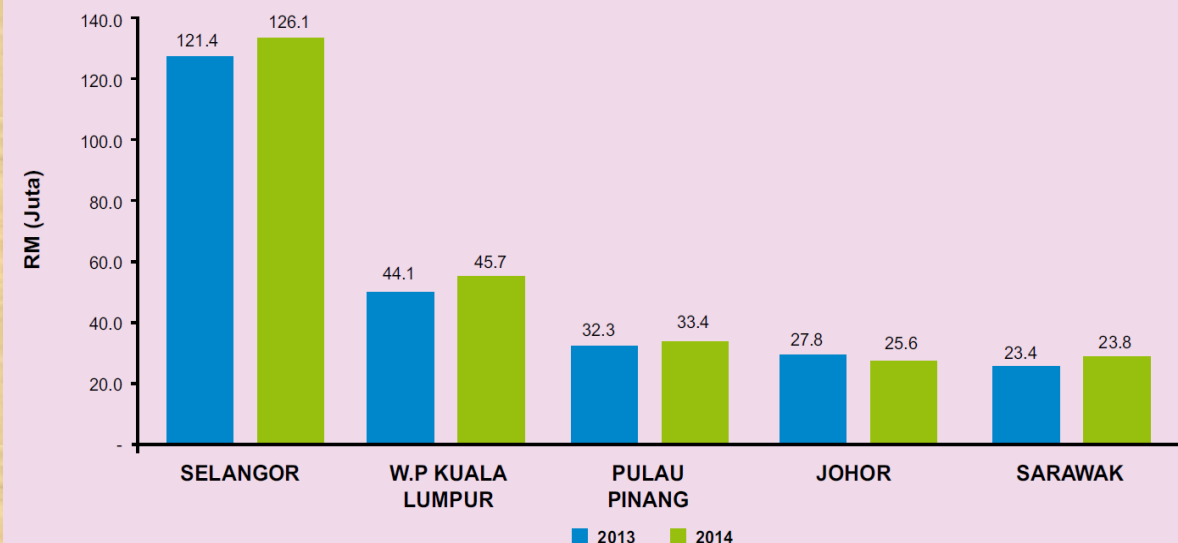
	2011	2012	2013	2014	2015
Number of SSPN Accounts opened	183,976	332,338	373,638	311,472	299,770
Total Number of SSPN-i Accounts	1,152,637	1,484,975	1,858,163	2,170,085	2,469,855
Amount of money deposited in SSPN-i Accounts (RM million)	142.2	251.6	378.83	398.24	498.24
Accumulated amount of money deposited in SSPN-i Accounts (RM million)	566.2	817.8	1,196.6	1,594.85	2,100.00

Chinese and urbanites comprise the majority of SSPN account holders by value

Rajah 22 : Prestasi Deposit SSPN-*i* Mengikut Lima Kaum Tertinggi Bagi Tahun 2014



Rajah 21 : Prestasi Deposit SSPN-*i* Mengikut Lima Negeri Tertinggi Bagi Tahun 2014



PTPTN currently has 74 offices across all the states in Malaysia

State	Number of Offices
Kuala Lumpur	16
Selangor	8
Johor	7
Perak	6
Pulau Pinang	4
Pahang	4
Kelantan	5
Negeri Sembilan	4
Melaka	4
Sabah	4
Sarawak	5
Kedah	3
Terengganu	3
Perlis	1
Total	74

Payments can also be made via post office branches, local bank branches and via online banking...

Maximum loan amount has been reduced by 5% for PuHEIs and by 15% for PrHEIs starting Nov 2014

IPT/ PERINGKAT PENGAJIAN	SEDIA ADA			BAHARU		
	Penuh	Sebahagian	Yuran	Maksimum*	75%	50%
	RM	RM	RM	RM	RM	RM
IPTA & POLITEKNIK						
Diploma	5,000	2,500	1,000	4,750	3,560	2,380
Ijazah Sarjana Muda	6,500	3,000	1,100	6,180	4,630	3,090
Sarjana	10,000	10,000	10,000	9,500	7,130	4,750
PHD	26,000	26,000	26,000	24,700	18,530	12,350
Kursus Profesional	6,000	6,000	6,000	5,700	4,280	2,850
IPTS						
Diploma	8,000	8,000	8,000	6,800	5,100	3,400
Diploma Sains Kesihatan	15,000	15,000	15,000	12,750	9,560	6,380
Ijazah Sarjana Muda	16,000	13,000	10,000	13,600	10,200	6,800
Ijazah Sarjana Muda Perubatan	30,000	30,000	30,000	30,000	30,000	30,000

Maximum loan amount adjusted based on household income:
 >RM8k 50%
 <RM8k but not BR1M 75%
 BR1M 100%

Loan amount for medical courses not affected...

Small improvement in repayment rates but still not sufficient for PTPTN to be sustainable

As of Feb 29, 2016, PTPTN was due to collect RM15.8 billion in repayments but it had only received RM7.9 billion or 50% of the total amount.

While this is an improvement from the 45.8% received at the end of 2014 (See Table 5 above), it is still not at a level which makes PTPTN sustainable

Repayment rate increased to 55% according to Deputy CEO of PTPTN in a recent interview with BFM Radio

Projected increase in PrHEI students under the MEBHE (2013-2025) will put increased financial pressures on PTPTN

What would it take for higher education enrolment to be among the highest in ASEAN?

The Ministry aims to expand higher education enrolment over the course of the next decade. The exact nature of the expansion in terms of both quantity of seats and profile of programmes will be determined in close collaboration with industry to ensure that supply matches demand

2012

Current level of 36% tertiary enrolment
(1.4M students³
48% higher education)

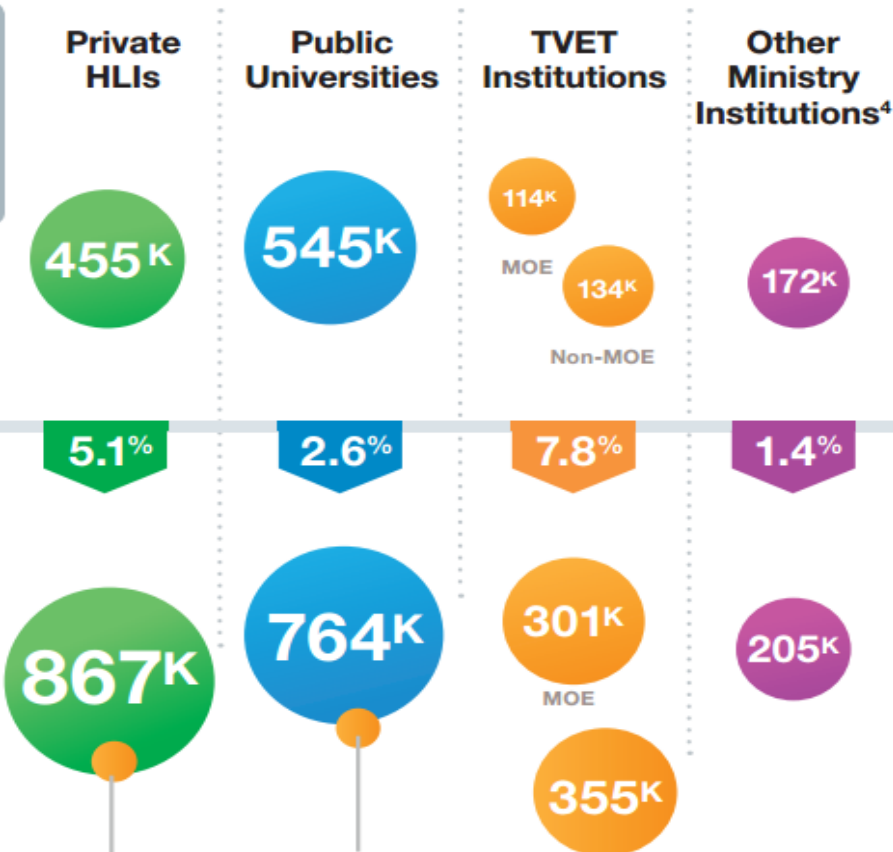
ANNUAL GROWTH

2025

Projected level of 53% tertiary enrolment
(2.5M students³
70% higher education)

³ Includes foreign students in Malaysian HLIs (97,000 in 2012 and 250,000 in 2025)

⁴ Includes Malaysia Institute of



According to this Blueprint, the enrolment level for PrHEI in 2025 is expected to be greater than PuHEI enrolment level with the former being projected to grow 2.5% faster than PuHEIs from 2012 to 2025. The enrolment in PrHEIs is projected to increase from 455k in 2012 to 867k in 2025 compared with 545k in 2012 to 765k in 2025 for PuHEIs.

This should raise alarm bells for PTPTN since tuition fees for PrHEIs, which usually operate on a for-profit model, are significantly higher than their public counterparts. With a greater proportion of PrHEI students seeking PTPTN loans, the total amount of funds needed by PTPTN to meet this demand would also have to increase commensurately. And if the repayment rate continues to be low, the financial 'hole' which PTPTN must fill will also keep on increasing.

Yearly PTPTN loans projected to increase to RM10b by 2025 (Cumulative loans will total RM141.5b)

2025	Local Student Enrolment	% of students who apply for PTPTN loans	# of Loans Approved	Average Loan Amount (RM)	Amount of Loans Approved (RM billion)	Cumulative Loan Amount (RM billion)
IPTA / PuHEIs	322,724	50%	161,996	20,303	3.3	57.8
IPTS / PuHEIs	247,230	75%	185,422	37,489	6.95	83.7
Total	569,954	61%	347,418	29,503	10.05	141.5

Yearly 'bailout' costs projected to increase to RM3.2b in 2025, cumulative costs up to RM26.1b (2015-2025)

	Grant to cover interest payments	Discounts (using 5% of total loans)	1 st class honours waivers (approx. 1.6% of total loans)	Total
Annual Costs (2025)	RM2.86 billion	RM173.8 million	RM138.7 million	RM3.174 billion
Cumulative Costs (2015-2025)	RM23.7 billion	RM1.3 billion	RM1.09 billion	RM26.1 billion

Some proposed solutions...

- I. Conduct a comprehensive survey of PTPTN loan holders to accurately identify the reasons for the low repayment rate*
- II. Loan repayments should be contingent upon income*
- III. Removing / Reducing Interest Rate Subsidies*
- IV. Automatic deductions for PTPTN repayments (like EPF deductions)*
- V. Means testing PTPTN loans*
- VI. Reducing / Removing 1st class honours waivers and discounts for PTPTN loans*
- VII. Increasing the maximum loan period*
- VIII. Shifting some of the loan burden to the private sector*
- IX. Consider a larger reform of the higher education sector*

(I) Comprehensive survey of PTPTN loan holders

This survey, which would be carried out by an independent survey firm, would include finding out the distribution of starting salaries for fresh graduates, the kinds of jobs they are holding vis-à-vis their qualification, the other loans which these fresh graduates must service, daily and monthly expenses such as rent and other types of expenditure. The survey commissioned by PTPTN in 2015 only involved a very small sample of 200 respondents and did not include crucial information such as starting salary, type of course and the type of the PrHEI.

With better data, PTPTN would be in a better place to introduce new policies such as income contingent loan repayments, variable interest rates and means tested loans (see below). With better data, the Ministry of Higher Education will be able to evaluate important trends such as completion rate by the individual colleges and universities, the starting salary of fresh graduates by course and individual colleges and universities and hence, be able to better plan for the higher education needs of the country moving forward.

(II) Loan repayments should be contingent on income

Graduates should have the option of paying back their PTPTN loans if their monthly income exceeds a minimum amount, at say RM3500. (Those who earn below this income threshold but who want to start repaying their loans should be allowed to do so) This is to ensure that low income earners are not excessively burdened by their PTPTN loans repayments. At the same time, to ensure that borrowers are not over burdened with repaying their PTPTN loans, the total monthly payment can be capped at a percentage of income, for example at 10%.

<http://penangmonthly.com/tag/ptptn/>

(III) Removing / Reducing Interest Rate Subsidies

Currently, the interest rates charged on PTPTN loans are 1% per annum under the Ujrah repayment scheme. This is far below the 4% which the government charges on its housing loans to civil servants. The interest rate subsidy on PTPTN loans should be reduced or removed completely. This policy, coupled with the income contingent payment, will make PTPTN loan repayments more equitable i.e. you will be charged a higher interest rate but you will only start to pay this back when you earn above a certain threshold income. This is already practiced in the UK with differential interest depending on one's income level.

(IV) Automatic deduction of PTPTN repayments from salaries

In order to increase the PTPTN loan repayment rates, the repayments should be automatically deduced from the salaries of graduates who are eligible to repay their PTPTN loans. This is already done for EPF and SOCSO contributions. It is also a common practice in countries like Australia where automatic deduction amounts are adjusted according to the amount of salary earned.

(V) Means testing PTPTN borrowers

Currently, the total amount of PTPTN loans which an individual can take borrow is determined by his or her family income. For example, a student from a family with a household income exceeding RM800 a month would be able to borrow up to 50% of the maximum loan amount. But this is still not proper means testing since students with parents earning over, let's say, RM20,000 a month can still borrow from PTPTN. PTPTN loans should be properly means tested so that those above a certain monthly income threshold e.g. RM10,000 should not be eligible to borrow from PTPTN.

(VI) Reducing / Removing 1st class honours waivers and discounts for PTPTN loans

1st class honours waivers have cost PTPTN more than RM840 million from its inception until 2015 year end. The 10% / 20% discounts on the early repayment of PTPTN loans have cost a further RM360 million until 2014 year end. The loan discount is not a progressive policy since it advantages the well-off who have the available funds to pay off their (children's) loans in one shot (20%) or have been regularly servicing their PTPTN loan (10%). The 1st class honours waiver can also be considered somewhat non-progressive since students from middle and high income families are disproportionately represented among 1st class honours holders. Both policies should be revised to save money for the government. For example, the 1st class honours waiver should only be applicable to students from low-income families.

(VII) Increasing the maximum loan period

Current PTPTN policy dictates that a loan has to be repaid back within 5 to 15 years. Allowing the maximum loan period to be increased beyond 15 years would allow those facing financial pressures to reduce their monthly repayment by extending the length of their loans.

(VIII) Shifting some of the loan burden to the private sector

Rather than relying totally on PTPTN to supply student loans, the government should shift some of the burden of supplying these loans to the private sector. The government can provide loan guarantees similar to what it provides for first time homebuyers under the My First Home financing scheme whereby 10% of the total loan amount is guaranteed by CAGAMAS.

<http://www.srp.com.my/docs/html/faq.html>

(IX) Consider a larger reform of the higher education sector

While the paper has thus far focused primarily on PTPTN, the impact of the government's strategic plans for higher education on the financial position of PTPTN cannot be ignored. For example, the government envisions a rapid expansion in the number of students in IPTS but it has given little thought as to how these students will fund themselves and the likely impact of this increase in demand for PTPTN loans. Any attempt at trying to solve the underlying problems associated with PTPTN would require a fundamental relook at the current Higher Education Blueprint including re-examining the balance between IPTA and IPTS students, their respective funding models and the quality of these institutions.

