

The Factors Influencing Students Towards The Selection Of Education Loan

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Abstract: The increasing cost in education occurs everywhere. Most of the household income was spent on education. The financial support offered by the higher learning institution is one of the five important features expected from the institution. Students who receive financial support are therefore more likely to enter higher education institution. Furthermore, the factors influencing students' satisfaction towards the selection of education loan also need to make known in order to understand the problems and solution for them.

Keywords: education loan, interest rate, term and condition of education loan, leniency

1. Introduction

Higher education is crucial for any country to achieve sustainable development and global development. It is also important to improve social participation in social mobility, public life, the achievement of harmony, justice and global peace at national and international level. In addition, the growing importance of knowledge in today's world and the ever-increasing number of people trained at higher levels has increased the higher education's responsibility (Tin et al., 2012).

Higher education in Malaysia has undergone significant changes to provide the nation with quality education. The Malaysian government has restructured the higher education system through the Ministry of Education (MOE) by developing strategies and plans for higher education institutions (HEIs) to perform excellently in competing with the global education market (Grapragasem, Krishnan & Azlin, 2014). In addition, the increased public demand for tertiary education in local and private institutions and the government's desire to position Malaysia as a regional center for academic excellence have led to the growth of private higher education institutions (Tin et al., 2012).

In addition, higher education is needed for human development which can help in economic growth and in the end eradicating poverty. In other perspective the end results of higher education help people in improving productivity, thus play a bigger role in business and earn a better living for themselves and society. Therefore, the key that enables people to rise in the world, seek better jobs, and ultimately succeed in their lives is education.

However, the increasing cost in education occurs everywhere. In China for example, most of the household income was spent on education (Zhang & Soukup, 2016) whereby 52 percent was set aside for higher education (Don & Wan, 2012). Most of the empirical result concluded that the issue relates to cost is the most important element that influence the choice of higher education institution (Joseph & Joseph, 2000). Consequently, it was reviewed by Sidin, Hussin, and Tan (2003) and Tin et. al. (2012) that the financial aide which being offered by universities is one of the five important attributes that is expected from a particular

targeted higher institution. Therefore, students who receive the financial aide will tend to pursue in heigher learning institution.

Furthermore, cost of living is the importance factors that the students need to know before the students further their study at the university level. For parents, they need to think properly because university education cost is extremely high. Education cost is expected to rise due to the increase in cost of living which is related to the current inflation rate. According to Sabri (2017), at the moment, IPTA student's funding around RM4,000 to RM5,000 on yearly basis for their education fees and for four years' fees is around RM6,000 to RM20,000 depend on the course taken by the student. For IPTS education fees is more expensive which is around RM48,000 to RM72,000 for them to hold the degree. The figures will expect to increase as the inflation rate also increases. Parent or student need to plan their financial systematically and wisely use the money as most of the parents have more than one child.

With the increasing of education expenses along with the higher cost of living makes the people suffer further in having the opportunity to embark them for higher education. The way out for them is to have funding for their higher education. However, as there is limited source of funding for higher education expenditure, sometimes it is hard to fulfil the needs for every higher learning candidate to get the best chance of funding their higher education expenses.

Therefore, it is crucial to identify the factors that contribute to the selection of education loans and student's satisfaction toward current education loans providers.

2. Literature Review

Education has been identified as a productive investment socially and economically. Education loan is a financing tool given by bank or an agency to students so that they can use it to further their studies. The most important thing is that the education loan interest basically is lower than the commercial loan. This education loan program has been introduced in more 70 countries including Malaysia. The purpose of the loan is to help the students from poor family so that they can be trained to be professional which can manage various economy sectors (Woodhall 1988, Ziderman 2004, Bank Dunia, 2007). The education loan also will ease the pressure towards the county spending budget (Ziderman 2004, Psacharopoulos et al., 1986).

It should be acknowledge that education loan schemes are different between countries in term of its overall design and operational scheme as well as its repayment scheme (Ziderman 2004, Woodhall 2002). For an example, countries such as The United Kingdom, Australia, New Zealand and The United States of America, this education loan program can outreached all students to get higher learning (Ziderman, 2004). In addition, the main purpose of countries like China, Korea Republic, the Philiphine, Thailand and Malaysia are to fulfil the social needs to help the students who are poor and less fortunate(Ziderman, 2004).

2.1 Education Loan Provider in Malaysia

National Higher Education Fund Corporation (Perbadanan Tabung Pendidikan Tinggi Nasional), or PTPTN, is an agency responsible for granting financing or loan to students in pursuing their studies for higher education in Malaysia. The agency reports to the Ministry of Education. Since its inception in 1997 to 2008, about 1.25 million students benefited from the

loans estimated at 25.89 billion Malaysian Ringgit (RM). However, about 50% of the 80% of borrowed students defaulted in repaying their loans (see www.ptptn.gov.my).

Clearly, it was a serious issue of giving funding for higher education in Malaysia. It has been estimated that 400,000 defaulters owing in amounting of RM 2.3 billion from the National Higher Education Fund Management Company (NHEFC) are asked to repay back, or they will refuse more than 100 000 of students from getting the student loan. The Chairman of the NHEFC said that if RM 300 million were not paid, at least 15,000 students would be denied to benefit the student loan. In addition, as of July 2013, approximately 2.24 million students had benefited from the creation of NHEFC amounting to RM 50.52 billion (The Star, 2013). In early November 2014, NHEFC announced that it had identified and list some 173,985 hardcore defaulters refusing in paying back the loan to CCRIS. As a result, these borrowers will begin repaying their loan as early as January 2015 to avoid being blacklisted and the name being entered into the system (Kosmo, 2015).

The increasing number of students in the higher education institution affected the source of scholarship to the students from the related agency. This has created a huge gap by the government in providing the loan for student. This financial support has become a need for the students which have the intention to further their studies (Abu Bakar et al., 2006).

2.2 Factors on Application of Education Loan

There are several factors that make up the reason for applying an education loan. When assessing lending, some criteria such as the profile of the borrower, the ability to repay, the reason for borrowing, the amount of the loan, the duration of the loan and the security of the loan must be taken into account. Meanwhile, as a borrower, there are several factors that they concern on before applying the education loan. These factors will be discussed in the next subsections.

2.2.1 Loan Application Requirement

In order to help the students with their higher education cost, Malaysian government created the National Higher Education Fund Corporation (NHEFC) or Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) in 1997 with the main objective to manage and distribute financing or loan to students. The main purpose of PTPTN is to subsidise part of the education and living expenses for the unfortunate socio-economic group (Dr. Russayani Ismail & Wan Roshidah Fadzim, 2009).

The PTPTN has introduced three levels for potential borrowers: Parents of students listed as a recipient of BR1M grants will receive the maximum loan amount. Students with a household income of not more than RM8,000 receive 75% of the maximum loan amount; Students with a household income of more than RM8,000 would receive only 50% of the maximum loan amount. However, undergraduate medical students continue to be eligible for the maximum loan of RM 30,000.

Although many students qualify for some form of PTPTN loan, the reality is that an even larger number of students consider the amount inadequate. With PTPTN's recent announcement on the new student loan scheme, which will reduce the loan amount, parents

and students may need to consider other forms of financial support, such as student loans and personal loans.

In addition to tuition fees, students and parents must also consider other costs normally incurred at the university, such as: Accommodation, textbooks, laundry, dining, entertainment and more. Students or parents should consider other sources of credit to cover the financial burdens of university education.

Loan application requirement is very important factor when the students want to decide which loan they want to apply. Some of the agency had tighten up their conditions of those who want to become a guarantor should be from only government officers. This will make the application to get the loan become a little bit difficult and challenging.

2.2.2 Low Interest Rate

In the market for money, interest rates are the price. As the demand for money increases, with no change in supply, the price of money increases as it would for any good facing increasing demand. On the other hand, as the supply of money increases, no changes in demand, decrease in the price of money as it would for any good facing similar conditions. Thus, the interest rate and the price of money is affected by changing demand or supply. And, the quantity of money supplied or demanded is affected by the interest rate.

Interest payments are the costs of borrowing money. The higher the interest rate, the higher the charges those borrowers must repay in addition to repaying the original amount borrowed (principal). As interest rates increase, the cost of borrowing also increases, discouraging potential borrowers from borrowing. In contrast, with lowered interest rates, borrowers would face lower costs, increasing the incentive to borrow.

Education financing or loan can ease the burden of students in helping them with their studies yet a lot of them are facing problem in repaying it back after they have finish their studies. After graduating and with the financing or loan that have interest-bearing, students will realise that their debt is much more than they expected (Russayani Ismail & Wan Roshidah Fadzim, 2009).

A research done by King and Frishberg (2001) which involved 1,031 students in the United States of America suggested that there are about 78% of the students who were actually undermined the student total financing cost of for their loan. The research also mentioned that the first year students will have the highest risk of undermining the impact of interest for loan repayment.

Basically, it would be difficult to get a cheaper student loan to cover the whole education cost because the availability of the low interest rate loan for higher education is limited.

According to McWade (1996) found that students need to consider five things before considering to make a loan which are, the future income, time for repayment, the interest charge, the chosen lifestyle after finishing studies, and the uncertainty that can influence the future income or the capability to pay back the loan.

2.2.3 Fact on Interest Rate

The interest rates are dependent on the amount financed and tenures involved. The interest rates offered by different lenders in Malaysia range from a minimum of 1 percent up to 8 percent. From the student's point of view, the irony is that, given the high interest rates, they will have to spend more on even monthly installments if interest rates on the institutions

have fallen. On the other hand, it is likely that they will be offered by such an institute at a lower price. For female students there are special discounts on interest rates of 0.5%.

These comprises of fixed interest and floating interest rates. Central bank normally offers floating interest rate on the student's loan, whereas for private and foreign bank will offer fixed interest loan. The interest rate varies between 12% to 16%. By looking at the current macroeconomic environment, it is advisable to choose floating interest rate. State Bank of India is the leader in the education loan business segment where 25% of the business is under this category.

Fixed interest is being charged during the study until the starting of the repayment. There have been complaints about banks that wanting to charge compound interest. The service for interest during the moratorium is voluntary which the students can claim a 1% interest rebate when they decide to make payment.

2.2.4 Fact on Terms and Conditions

In general, the loan would be doubtful if the terms of the loan were not met, and this could result in the loan being converted into unpaid debts contained in the promissory note, collateral or the loan agreement. The problem would also have arisen if the terms of the original loan terms had been adjusted to the needs of the bank, e.g. extending the term of the loan, improving or restructuring the loan. Some of the reasons for the credit problem are that such a high amount of credit may exceed the affordability of the borrower. Second, a loan that goes beyond collateral and does not provide sufficient security. Third, a loan secured against assets such as musical instruments, aircraft, etc. that can not be returned. Fourth, it is an ineffective credit check for borrowers - for some banks, which are usually profit-oriented, they are not interested in checking the creditworthiness of the borrower, as this task is time-consuming and money-consuming. Fifth, the weaknesses in the follow-up of the security document such as land titles or insulating materials. This would mean that the accompanying documents could not be very helpful in solving the problem. Finally, the competition from other banks that could offer better and more liberalized loans with better interest rates.

Based on a study by Zainal et al. (2012) shows that students perceived to have negative behaviour towards the education loan repayment. They do not give priority in loan repayment where it is ranked fifth in the types of the expenses list. It also shows that the number of borrower increase yet the repayment is lower than expected. University graduates are having difficulties to pay back their education loan. The worst part is, they also have other borrowing or loan (Zainal & Ismail, 2012). In the previous research by Price (2004), a student will become a liar when the student is having loan above 8%. The reseach also found out that any student who has higher education loan in average will have salary lower than other students. In other words, the total defaulters can be a good measure in predicting the repayment amount.

2.2.5 Fact on Leniency

Most of the education loan providers in Malaysia offered for the conversion from loan to scholarship if the students manage to achieve a First Class Honours for their Degree. Therefore, students that achieved the First Class Honours will entitle for this benefit. Some of the loan providers provide the grace period of 6 months after the graduation. The time a person needs to repay depends on the amount borrowed.

To encourage borrowers to repay, some incentives have been created, such as:
 - 15% discount for the full payment of the loan.

- 10% discount for at least 50% final payment at once.
- 10% discount for repayments by salary reduction or direct debit according to Jadual Bayaran Balik (JBB).

Some providers of educational loans offer a flat rate of 1% or Ujrah, a "fee" in line with the shariah-compliant, to cover the administrative and administrative costs.

3. Reseach Methodology

Both exploratory and descriptive designs were employed in the current study because they suit the nature of this study and its specific objectives. The selection of exploratory design is because of the ambiguous research problem and very limited availability of evidence to formulate empirically testable hypotheses. Meanwhile, descriptive design will facilitate the researcher in answering the questions of what are the main factors contribute to the satisfaction and selection of current education loan and the cross-sectional design was the only feasible alternative, because time constraints made the adoption of longitudinal design is not likely, if not impossible.

4. Findings

Table 1. Findings result

Variable	Distribution of Variable Levels					
	Low Level of Current Loan Provider		Moderate Level of Current Loan Provider		High Level of Current Loan Provider	
Current Loan Provider	Frequency	Percent (%)	Frequency	Percent (%)	Frequency	Percent (%)
		15	5.1	222	75.8	56
Information on Loan Application Requirement	Low Level of Information on Application Requirement		Moderate Level of Information on Application Requirement		High Level of Information on Application Requirement	
	Frequency	Percent (%)	Frequency	Percent (%)	Frequency	Percent (%)
	15	5.1	176	60.1	102	74.8
Information on Interest Rates	Low Level of Information on Interest Rates		Moderate Level of Information on Interest Rates		High Level of Information on Interest Rates	
	Frequency	Percent (%)	Frequency	Percent (%)	Frequency	Percent (%)
	31	10.6	118	40.3	144	49.1
Information on Terms and Conditions on Repayment	Low Level of Information on Terms and Conditions on Repayment		Moderate Level of Information on Terms and Conditions on Repayment		High Level of Information on Terms and Conditions on Repayment	
	Frequency	Percent (%)	Frequency	Percent (%)	Frequency	Percent (%)
	8	2.7	186	63.5	99	33.8
Information on Leniency of Loan Provider	Low Level of Information on Leniency of Loan Provider		Moderate Level of Information on Leniency of Loan Provider		High Level of Information on Leniency of Loan Provider	

	Frequency	Percent (%)	Frequency	Percent (%)	Frequency	Percent (%)
	12	4.1	202	68.9	79	27

5. Results and Discussion

The above table 1 shows UNISEL FBA student’s overall degree of satisfaction with their current loan provider, information on application requirement, information on interest rates, information on terms and conditions and information on leniency of loan provider. The results indicated that majority of the respondents have a moderate level of current loan provider (75.8%).

The respondents’ have a high level of information on loan applications requirement (74.8%). This was supported by Woodhall (1988) states the need for “publicity campaigns to ensure widespread understanding and acceptance of the principles of student loans and the importance of the obligation to repay loans”.

They also have high level of information on interest rates (49.1%). It means that students understand that they have to pay more for equal monthly instalment if the interest rate is high. However, 40.3% of the student have a moderate level of information on interest rates and this shows that the students are compromising the effect of interest on the repayment of loan (King & Frisberg, 2001)

Meanwhile 63.6% have a moderate level of satisfaction in terms and conditions on loan repayment. This has been supported by Zainal et al (2012) which revealed that the students have negative perception against the repayment of higher education loan. They do not give priority in loan repayment where it is ranked fifth in the types of the expenses list.

Furthermore, most of the respondents have a moderate level of satisfactions towards the Leniency of Loan Provider (68.9%). This shows that students want the loan provider to be more lenient towards their loan repayment. For example, as stated in PTPTN offer letter, the loan can be converted to scholarship if the student achieved First Class Honour Degree. Therefore, the students might want PTPTN to reduce the level of CGPA in order to be exempted in paying back the loan. Meanwhile PTPTN also can reschedule the loan repayment if the borrower is unable to pay their loan. Currently, the grace period of 6 months has been given to the students after they graduated. Even with the current leniency given by PTPTN, students demand more leniencies from PTPTN.

6. Conclusion

This research presented the result of the study that are useful in formulating a better education financing product which can give more benefit to the students without compromising the loan provider costs of financing. Furthermore, this study responded to the recent call to provide useful information towards the students’ needs of loan and in formulating a better education loan product for them.

7. References

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