

# Education Loan Repayment Intention

Yamunah Vaicondam and Onn Huey Wen

**Abstract---** *Education loans are one of financial aid that designed to help students to pay their tuition fee, purchase learning materials and supplies on top of funding their living expenses in higher educational institutions. Majority of the students graduating with debt and the debt level are snowballing by years which are unmanageable by graduates while facing repayment years. Malaysia is one of the country with high loan defaulter's rate. Although the recent trends have shown an increase in reimbursement, it is not sufficient to sustain the funds needed for the future graduates. Besides, studies are lacking among private universities participants. This study adapted the Theory of Reasoned Action (TRA) by Fishbein which is mainly to predict the attitudinal influence and behavioural intention in education loan repayment. This descriptive study employed 380 participants who graduates from private universities in Klang Valley to determine the factors that influenced the intention to make repayment of education loan. The OLS pooled regression shows that the independent variables commitment, attitude and affordability have significant positive effect on the education loan repayment intention, however the fear of penalization is insignificant to the intention to make repayment of education loan in Malaysia. Further studies are encouraged to compare the intention among students in public and private higher education institution in Malaysia due diverse funding requirement and price of tuition fee.*

**Keywords---** *Education Loan, Repayment Intention, Malaysia.*

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## I. INTRODUCTION

Student loans are designed to help students to pay for higher education, such as tuition, books, supplies and living expenses (Lochner, 2016). There are two types of student loans; federal and private student loans. Federal student loans is funded by the federal government, where the private student loans is made by a lender. The Malaysian government realized that education is very important to the future development of Malaysia, as a result, they established the national higher education funds, or better known as PTPTN, according to a 1997 National Higher Education Fund (Act 566) became effective on 1 July 1997 the provision and management of college students to pursue higher education loan program Malaysia in public or private university in Malaysia (Yeong, 2015). Since this is a revolving fund, PTPTN duties include collecting payments after graduated from borrowers and to obtain employment, so money can be recycled, and as a new student loans to other students. The government will continue to provide students with affordable education and high quality education, while balancing the needs of the people by training future talent. About 85% to 95% of education costs are subsidized by the government, while student living expenses are included in PTPTN loans (Mujani, 2016).

According to Ismail, Serguieva and Singhc, 2011, Malaysia is one of the country with high loan default rates. Although recent trends have shown an increase in reimbursement, it is not sufficient to sustain the funds needed for the future (Ismail et al, 2011). Reimbursement deficiency may lead to four policy makers to implement more strict

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Yamunah Vaicondam, Faculty of Business, Accountancy and Management, SEGi University, Petaling Jaya, Selangor, Malaysia.  
E-mail: yamunahvaicondam@segi.edu.my  
Onn Huey Wen, Faculty of Business, Accountancy and Management, SEGi University, Petaling Jaya, Selangor, Malaysia.

rules and regulations, this can lead to major change, in order to reduce and solve the loan default (Forbes, 2015). By understanding the repayment of loans to graduates, student loan can be helped to fund future generations. Measures taken include contact with the public/students and discounts for graduates who have continued repayment. This also includes the recently proposed blacklist of central credit reference information systems (Ghazali, 2013), which included loan defaulters in Negara. This will require new measures and commitments from all concerned to change and ensure that the national advanced education fund is sustainable for future generations.

Rising student debt levels on young borrowers impacted the economy eventually, crowd out other investments, slowing economic growth, and change the speed of young families and to buy a house. This is not to diminish the importance of education. People with college degrees earn more than a million in their lifetime, and the unemployment rate is lower than those with a high school diploma (Wiersch, 2014). But the impact of student debt is profound and deserves the attention of policymakers.

The Federal Reserve Bank of Cleveland reported that "the growing financial burden associated with student loans has affected student borrowers and their families." As debt levels rise, the drag on economic growth is becoming more apparent, and the effect may be felt in the distant future (Wiersch, 2014). The growth in student loans over the past decade is staggering.

Between 2004 and 2012, student loans increased 69 percent, from 23 million to 39 million. At the same time, the average borrower's loan has skyrocketed by 70 percent from \$15,000 to \$25,000. The cumulative amount of debt is "far greater than the debt of the past group", and the impact of this rising debt is affecting young borrowers in America (Smole, 2015). High levels of student loan debt could affect retirement savings, according to the consumer protection bureau. Early retirement is important. Transferring money from a savings to the student loans, affects the student loans can eventually total savings, forcing them to rely more on at retirement is another form of income, namely social security (Marie, 2014).

## **II. LITERATURE REVIEW**

The education loan default is a worldwide problem. In Malaysia, higher education student loan delinquency rates are close to 50%. Taking this into consideration, this study provides the first in-depth analysis of the major data of Malaysian public university students, and analyses this chronic problem in depth. (Ismail, 2014). Planned behaviour theory, with the help of an empirical analysis of the default rate influence to establish a complex interaction of individual, society and psychology related variables: the student's attitude, to repay the loan, the influence of parents, cognitive, loan repayment will affect the quality of life after graduation, loan agreement, the consciousness of loan repayment problems created by the media (Abu Bakar, 2015). The study has successfully eliminated the precise impact of these variables on loan defaults.

These findings have a strong relationship with government-funded organizations and, once they are aware of the real cause of delinquency, they are better able to plan the progress and recovery of the loan (Loonin, 2016). The new approach is designed to examine the problem of breaching, which is also useful for academic researchers seeking similar studies in other countries. It should also assist decision maker in developing long-term strategy to assess, design and evaluate new lending programmes (Aizen, 2014). Developing countries, such as Malaysia, face a

competitive need for limited financial resources. The improvement in recovery rate will result in funds that can be lent to other students or to enhance the education infrastructure. These measures add useful value to the socio-economic construction of the country (Al-Rafee, 2006).

College students have a certain knowledge of loan agreement and loan repayment. However, the empirical results show that, although most students know a lot about loan agreements, there's still a small number of people who don't understand the basic conditions of student loans (Singh, 2015). Volkwein explicitly pointed out that the lack of knowledge is not an important factor of default payments, because 93% of borrowers are aware of the loan must be repaid (Barr N., 2013). However, a quarter of students are confused about the repayment process. In addition, the student the lack of the understanding of certain aspects of student loans. Another finding is that senior students tend to have better knowledge compared to first - year students. A study by Woo (2002) shows that borrowers who never defer payments are less likely to default because they can handle payments (Baum, 2014).

Many studies have shown that financial worries and debt can put pressure on individuals, combining with existing pressures on students, and raising questions about how student debt can affect students' stress levels (Boyles, 2017). The recent national survey, the debt of college students and other related economic conditions is one of the main causes of stress. Among university students, finance is the second largest source of stress among university students. More than one third of respondents said that the financial situation was painful or difficult to handle (Montalto, 2014).

The financial pressure of college students is measured by self-report, which they consider the amount of debt that causes them to reduce their classroom burden, consider dropping out of school or ignoring their studies. The students who reported financial pressure were found to have lower scores, and their quarterly credits were reduced. Joo, Durband and Grable (2008) is also discussed from the perspective of academic influence college students' financial pressure. Students who experienced interruption of studies, such as due to financial problems and reduce the burden of course or school students, their personal financial pressure is bigger.

In addition to their financial burden, student loans are more difficult to make with their demanding repayment schedules and loan restrictions. Therefore, Heckman and his colleagues, Walsemann and colleagues (2014) pointed out that have a large number of student loans personal face more pressure and a greater risk of "psychological function". For example, student loan debt is associated with students' stress, burnout and suicidal thoughts. Cooke and his colleagues have concluded that students with high debt are more likely to feel tension and be subject to criticism, unhappiness and irritability than those with less or no debt (Cooke R, 2006). In the same way, students report that their propensity to invest in society is less and less relentless, and their debt is more cynical. Is consistent with these results, the present study results show that on average, the graduates of the tolerance of the debt is low, relatively high degree of fear of debt (Joo, 2008).

"Fear of debt" is directly related to the pressure that students feel, showing that students who are more afraid of debt have experienced more stress. However, there was no significant correlation between perceived stress and estimated or federal student loans. This suggests that students' fear of debt may be more stressful than actual debt, which is consistent with the report by Morra and colleagues, who found that the expected debt burden on students

was greater than the actual (current) debt (Morra DJ, 2008). The relevant analysis of this study also shows that students with "fear of debt" have higher estimates of student loans, federal loans and school loans. Assume that students with higher levels of debt to repay the loan is worried about the prospect of, anxiety or fear, it is reasonable, which may explain the "fear" debt scale and the relationship between the student loan amount(Phillips JP, 2016). The analysis also found that students with higher scores on "thinking and knowledge about loans" had lower estimates of student loans, federal loans and school loans. It shows that students who have more thought and knowledge of loans have had fewer student loans. In addition, students with higher "thinking and knowledge of loans" were able to repay their loans in a relatively short period of time compared with those with lower scores (Park T, Yusuf AA, Hadsall RS, 2015).

As a result, studies on "thinking and knowledge about loans" have shown that students who are more thoughtful and knowledgeable about loans may take more careful methods to handle debt management issues because they understand that lending to less money and faster repayment makes more money available for use by individuals. Norvilitis and colleagues found that support this hypothesis, they found that college students to increase financial knowledge leads to debt reduction (Norvilitis JM, 2006).

Additionally, the comparison indicates that while our students were relatively fearful of debt, they were slightly less fearful than the students in the Park and colleagues' study (Park T al et, 2015). This may be due to graduation related student loan guidance and job security after graduation (thereby ensuring repayment of student loans and alleviating concerns about these loans). In a word, the two samples have some small but noteworthy differences in their attitude towards the size of the debt, which may be due to the education or consultation that the school has represented and/or received for many years.

Therefore, the accumulated research results support the need for programming, helping students' better cope with the obligations involved in lending and repaying student loans, thereby reducing stress and fear. Rohlfling and his colleagues have made similar claims in their student debt studies. The programming of knowledge about debt and debt management capability may include education (including student loans and general personal finance), financial assistance advisory and professional financial planning (Rohlfling J, 2014).

The recommendations were supported by previous studies, such as Heckman and his colleagues, who noted that college students with a greater sense of financial self-efficacy (defined as individuals' perception of their ability to manage money) experienced less financial stress. In addition to implementing education, advisory and planning, schools may consider using cost control as a strategy to reduce the fear and pressure of student loans (Heckman S, 2014).

In recent years, school fees have risen considerably. In a possible case, further increases in tuition and fees, and scholarships to offset costs, could help reduce student loan demand. Finally, as Dyrbye and Shana (2016) pointed out in the burnout study of college students and residents, schools may consider developing programming aimed at students' self-care and coping strategies, such as active refactoring, to help ease the pressure associated with student loan debt. Based on the previous experimental studies on factors that encouraged and influenced the intention to make repayment of education loan, the following hypotheses developed:

H<sub>1</sub>: There is a significant relationship between fears of debt towards repayment intention.

H<sub>2</sub>: There is a significant relationship between commitments towards repayment intention.

H<sub>3</sub>: There is a significant relationship between attitudes towards repayment intention.

H<sub>4</sub>: There is a significant relationship between affordability towards repayment intention.

### III. RESEARCH METHODOLOGY

A target population is defined as the group of people to whom we want our research results to apply (Jennifer, 2017). The target population of the study is undergraduate students and graduate student who have borrow education loan in Malaysia. They are chosen as a sample population in the study as they could epitomize the borrower of the education loan. In order to influence population, we chose a sample measurement to apply to the study. In order to achieve faster results, the sampling method is enforced by budget and time constraints, as it does not apply to the entire population.

The present study examines on the issues related to education loan. This research uses a quantitative methodology through questionnaire survey in view of the following reason. For the research of auditor independence issues, a questionnaire is an effective tool to seek views on individuals (Ghauri, 2010). Questionnaire is also favoured within the large sample size therefore; it helps to enable hypotheses testing.

The survey questionnaire is chosen as it is simple, quicker and easier to understand as it uses the rating scales in numerical form which requires the most five to ten minutes of respondents time. Hence, the use of quantitative method is more effective and the use of questionnaire permits the study to be administered in large quantities with a cheaper cost. The questionnaire will be conducted in Klang Valley. A total of 380 questionnaires employed to private university students.

### IV. FINDING AND DISCUSSION

The data collected tested for reliability using Cronbach alpha test to measure the "consistency" or "repeatability". Descriptive statistics are used to describe the basic characteristics of data in the study. They provided a brief summary of the samples and measures. Table 4.1 indicates the descriptive statistic of dataset.

Table 4.1 Descriptive Statistics

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
	<i>Statistic</i>	<i>Statistic</i>	<i>Statistic</i>	<i>Statistic</i>	<i>Statistic</i>
Repayment Intention	380	1	3.25	1.7713	0.3889
Fear of debt	380	1	4.6	2.24	0.85231
Commitment	380	1	4.8571	2.391429	0.798322
Attitude	380	1	5	2.3913	0.76537
Affordability	380	1	4.75	2.2513	0.78918

Table 4.2 is the correlation analysis findings shown the correlation analysis where the fear of debt have positive significant with commitment, attitude and field of study which is 0.363, 0.473 and 0.331. Furthermore, commitment, attitude and afford ability have significant positive relationship with repayment intention.

Table 4.2: Correlations Analysis

	<i>Repayment Intention</i>	<i>Fear of debt</i>	<i>Commitment</i>	<i>Attitude</i>	<i>Affordability</i>
Repayment Intention	1	-0.053	0.721**	0.804**	0.180**
		0.459	0.000	0.002	0.010
Fear of debt	-0.053	1	0.636**	0.473**	0.331**
	0.459		0.000	0.000	0.000
Commitment	0.721**	0.636**	1	0.495**	0.337**
	0.000	0.000		0.000	0.000
Attitude	0.804**	0.473**	0.495**	1	0.560**
	0.002	0.000	0.000		0.000
Affordability	0.180**	0.331**	0.337**	0.560**	1
	0.010	0.000	0.000	0.000	
**. Correlation is significant at the 0.01 level (2-tailed).					
N = 380					

The diagnostic test conducted prior multiple regression analysis. The normality and linearity analysis shows that data are normality distributed and variables are in linear relationship with no multicollinearity issues.

The table 4.3 has shown the VIF value of the independent variables (Fear of debt, Commitment, Attitude, Field of study) is 1.784, 1.833, 1.784 and 1.472, which is less than 10 and in the range of 1 to 5.

Table 4.3: Coefficients

<i>Dependent Variable: Repayment Intention</i>		
	<i>Collinearity Statistics</i>	
	<i>Tolerance</i>	<i>VIF</i>
Fear of debt	0.56	1.784
Commitment	0.546	1.833
Attitude	0.561	1.784
Affordability	0.679	1.472

Table 4.4: Multiple Regression Analysis – Coefficients Dependent Variable: RIlog

<i>Model</i>	<i>Unstandardized Coefficients</i>	<i>Standardized Coefficients</i>	<i>P - value</i>
	<i>Beta</i>	<i>Beta</i>	
(Constant)	0.252		0.000
Fearlog	-0.012	-0.021	0.822
Comlog	0.022	0.035	0.007
Attlog	0.066	0.1	0.008
Afflog	0.015	0.025	0.005

The table 4.4 indicates the findings of multiple regression analysis. The equation derived based on the factors that encouraged and influenced the intention to make repayment intention of education loan;

$$FEIREL = c + \beta FOD + \beta CT + \beta A + \beta AFF + e$$

Where;

FEIREL = Repayment intention of education loan

C = constant

FOD = Fear of debt

CT = Commitment

A = Attitude

Aff = Affordability

e = error

As a conclusion, this chapter is investigating and analysing about the data that collected from those 380 respondents. The multiple regression analysis significant effect of commitment, attitude and affordability on education loan repayment intention. However, the fear of debt shows insignificant to the repayment intention. This is maybe due of current issue happen in Malaysia such the new political party governance who took over the governance, Pakatan Harapan (PH) promise that repayment of National Higher Education Fund Corporation (PTPTN) loans will be suspended for those earning below RM4,000 monthly (TheStar, 2018). Students realise that the current situation was change, fear of debt is not a reason affect their student loan repayment. Besides, PH is also proposing to remove PTPTN's blacklisting policy, in which defaulters will not be allowed to renew their passports and they are barred from leaving the country (Ruxyn, 2018). The names of 429,945 borrowers of the National Higher Education Fund Corporation (PTPTN) have been removed from the Immigration blacklist since May 2018 (TheSunDaily, 2018). Therefore, Malaysian who are owing education loan they are restore freedom, they don't have to worry about any education loan repayment problems.

Therefore, this study contributes to the private university students be aware about the education loan agreement before request for such funds. In addition, the government can redefine the education loan agreement in a simple language to help students understand the education loan agreement more easily. Furthermore, the government may hold seminars to give students a better understanding of education loan agreements and repayment methods. This will allow higher chances of being committed to the education loan repayment.

Future studies can expanded toother states across the country to obtain truly sufficient data and country-specific conditions for private universities in Malaysia. In addition, future researchers can investigate other variables such as education loan amounts, views on loan agreements, and academic experience.

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