



Education Report: Student Loan Scheme quarterly report January to March and April to June 2020

To:	Minister of Education, Hon Chris Hipkins		
Cc:	Minister of Revenue, Hon Stuart Nash Minister for Social Development, Hon Carmel Sepuloni Associate Minister of Education, Hon Tracey Martin		
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Purpose

This paper provides you with an update on the performance of the Student Loan Scheme (the Scheme) in the periods January to March 2020 and April to June 2020. As part of Ministerial governance of the Scheme, officials report quarterly on the performance of the Scheme.

Summary

In comparison to the same time last year, the following patterns have emerged in relation to student loan borrowing and repayments:

January to March

- Overall borrowing decreased slightly in this quarter compared to the same quarter in the previous financial year due to fewer students borrowing for fees (as enrolments continue to decline). The average amount each student has borrowed has increased for both fees and living costs.
- Repayments increased in this quarter. Despite a small fall in repayments from overseas-based borrowers, this has been offset by more repayments from New Zealand based borrowers (both directly and from employers).

March to June

- Overall borrowing increased significantly in this quarter. This was mostly driven by the temporary COVID-19 response measure allowing students to borrow more for the course-related costs component of the Scheme.
- Although it appears that repayments increased significantly in this quarter, this is because repayments made through employers are now accounted for earlier than in previous years due to IR's Business Transformation.

Recommended actions

The Ministry of Education recommends you:

- a. **note** that this report has been prepared with input from the Ministry of Social Development and Inland Revenue
- b. **note** that key information about trends in quarters three and four 2019/20 compared to the same quarter in the previous financial year are summarised in the 'Student Loan Scheme at a Glance' sections on pages 3 and 4
- c. **proactively release** this paper, in consultation with the Ministry of Social Development and Inland Revenue, and with any necessary redactions in line with provisions of the Official Information Act 1982

Release Not release



Katrina Sutich
Group Manager
Tertiary Education

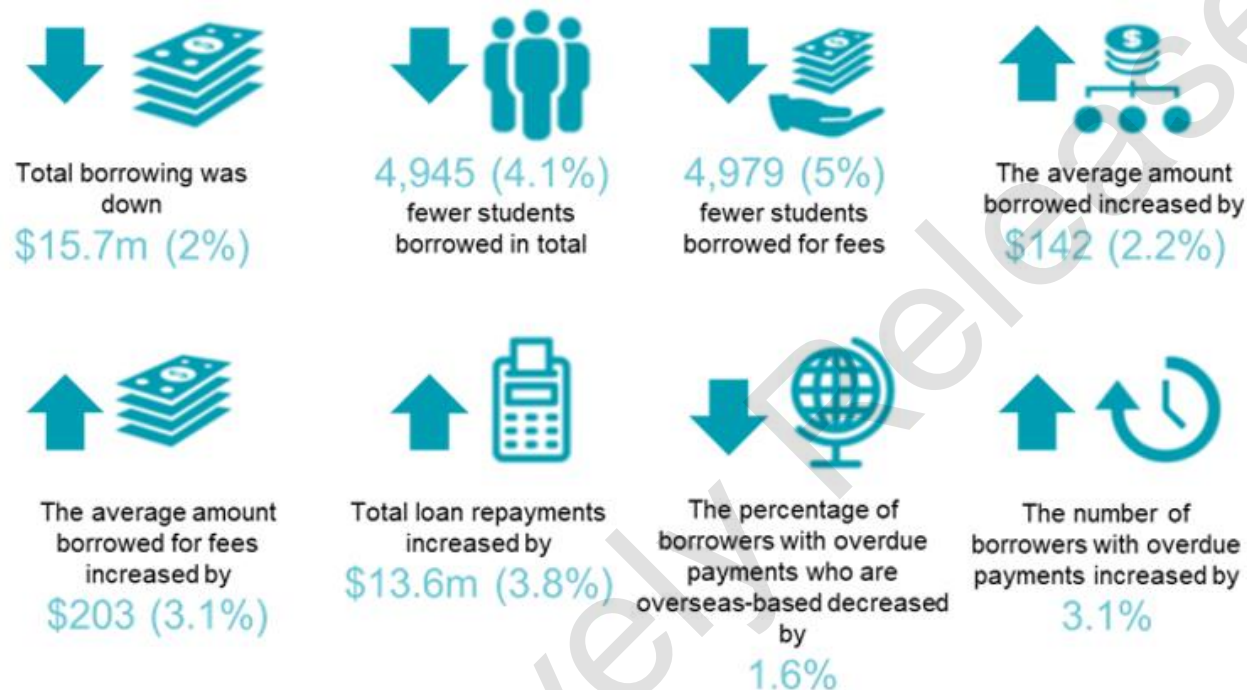
23/09/2020



Hon Chris Hipkins
Minister of Education

28/10/20

Student Loan Scheme at a glance — Performance for quarter three 2019/20 (January to March 2020) compared to quarter three 2018/19



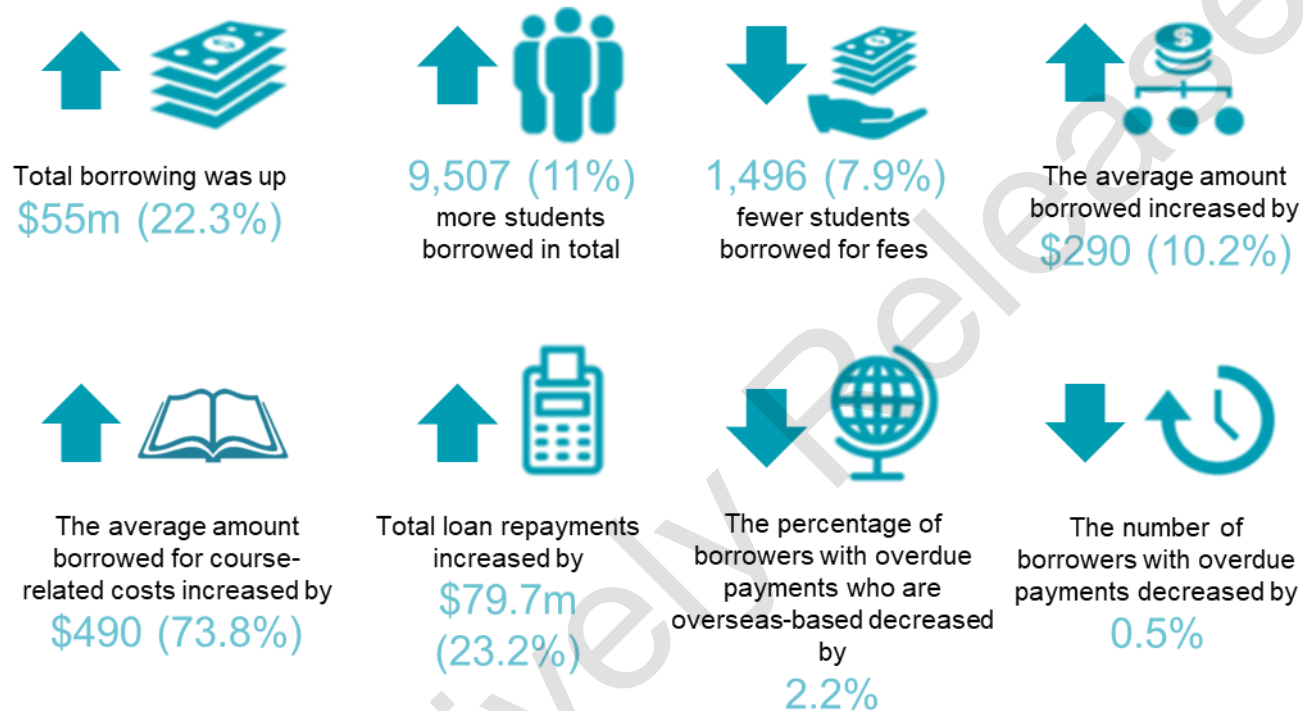
We did not expect significant changes in loan borrowing in quarter three 2019/20 compared with quarter three 2018/19 as the calendar year 2020 is the third year of the fees-free policy for the new entrants.

We expected increases in average amount borrowed for fees due to fee rises and trends towards higher cost and full-time study.

The number of overseas based borrowers with overdue payments reduced by 1.6% from the same time last year. Borrowers with overdue payments who are New Zealand based continue to increase.

This is partly driven by the continuation of borrowers with overseas based default returning to New Zealand.

Student Loan Scheme at a glance — Performance for quarter four 2019/20 (April to June 2020) compared to quarter four 2018/19



We expected a significant increase in total borrowing in quarter four compared to the same quarter in the previous financial year.

This is due to the government's COVID-19 response measure, which increased the amount students could borrow for course-related costs.

Although total loan repayments increased by 23.2%, this was because repayments through employers are being accounted for earlier than in previous years due to IR's Business Transformation.

Background

1. This report covers the third and fourth quarters of the 2019/2020 financial year. The previous report covered October to December 2019 [METIS 1218023 refers]. The Student Loan Scheme Management Group have agreed that this quarterly information will now be reported to Ministers twice a year.
2. This information is in addition to the Student Loan Scheme Annual Report information.
3. The quarterly report is compiled by the Ministry of Education (MoE), the Ministry of Social Development (MSD), and Inland Revenue (IR).
4. Unless otherwise stated, figures in this report are for:
 - a. financial quarter three, spanning 1 January to 31 March 2020, compared with the corresponding quarter three in the 2018/19 financial year; and
 - b. financial quarter four, spanning 1 April to 30 June 2020, compared with the corresponding quarter four in the 2018/19 financial year.
5. The 'Student Loan Scheme at a Glance' sections (p.3-4) provide an overview of key trends across these two quarters compared to the same quarters in the previous financial year. For quarter three, there were no significant changes in loan borrowing and repayments but for quarter four, there was a significant increase in total borrowing due to the Government's COVID-19 response measure related to course-related costs.

The impact of COVID-19 on the Student Loan Scheme

6. The Government moved quickly to help students meet extra costs associated with studying in a different way during lockdown and reduce financial pressures caused by the COVID-19 outbreak. A key change was the temporary increase to course-related costs from \$1,000 to \$2,000 for students studying or beginning study in 2020.
7. The additional assistance was mainly focused on students in study. There are existing hardship arrangements for borrowers who are having difficulties meeting their repayment obligations, including because of COVID-19.
8. We expect that COVID-19 will impact student loan borrowing and repayments in the medium to long term. However, it is too early to tell the extent of the impact in this report. This is particularly true for quarter three because New Zealand was not greatly affected by COVID-19 until the end of March. The impact of COVID-19 is also not seen in the Student Loan Scheme Annual Report (due in December) but will likely be seen in the 2020/21 financial year.
9. The most significant observable impact reported here is the \$55m (22.3%) increase in borrowing during quarter four, due to the temporary increase to course-related costs as mentioned above.
10. As more New Zealanders return home, we expect to see COVID-19 impact key repayment statistics, including numbers of overseas-based borrowers (OBBs) and New Zealand-based borrowers. It takes six months for an OBB who has returned to New Zealand to be deemed New Zealand based and therefore stop paying interest on their loan, so it may take some time until this shift is seen in the data. Work is underway to gather information on how many OBBs have returned to New Zealand after the COVID-19 outbreak. This will be included in the annual report.
11. We also expect student loan borrowing to increase over the next few years as more people enter tertiary education due to COVID-19's impact on the labour market.

Scheme performance in quarter three

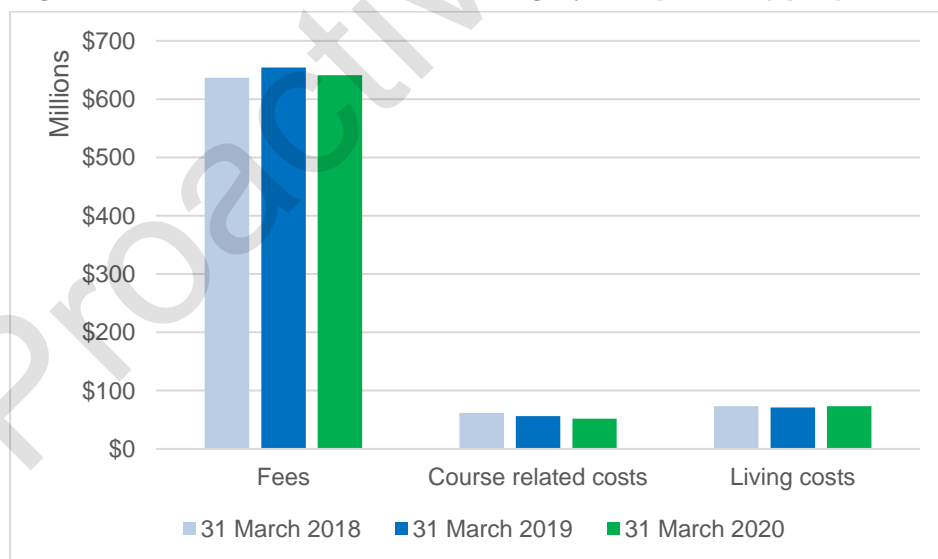
Table 1: Borrowing and repayments over quarter three (1 January to 31 March) for 2019/20

	Borrowing (\$m)	Repayments (\$m)
	Jan to Mar 19	Jan to Mar 19
	\$781.9	\$356.1
	Jan to Mar 20	Jan to Mar 20
	\$766.2	\$369.8
Difference	\$15.7	\$13.6

Source: MSD and IR

Loan borrowing¹ in quarter three

12. Borrowing in quarter three was down \$15.7m (2%) compared with the same quarter in the 2018/19 financial year. This reflects decreases of \$13.3m (2%) in borrowing for fees and \$4.4m (7.8%) in borrowing for course-related costs. Borrowing for living costs increased by \$2m (2.8%) (figure one).
13. The decrease in the amount borrowed for fees is due to nearly 5,000 fewer students borrowing for fees. The average amount borrowed for fees increased by \$203 (3.1%). This was expected due to fee rises (within regulated fee limits) and trends towards higher cost and full-time study.
14. The increase in borrowing for living costs is consistent with the preceding quarters (July to December 2019), and due to increases in the amount of living costs borrowed per person. There are actually 2,134 (3.1%) fewer students borrowing for living costs compared to the same quarter in the previous financial year (figure two).

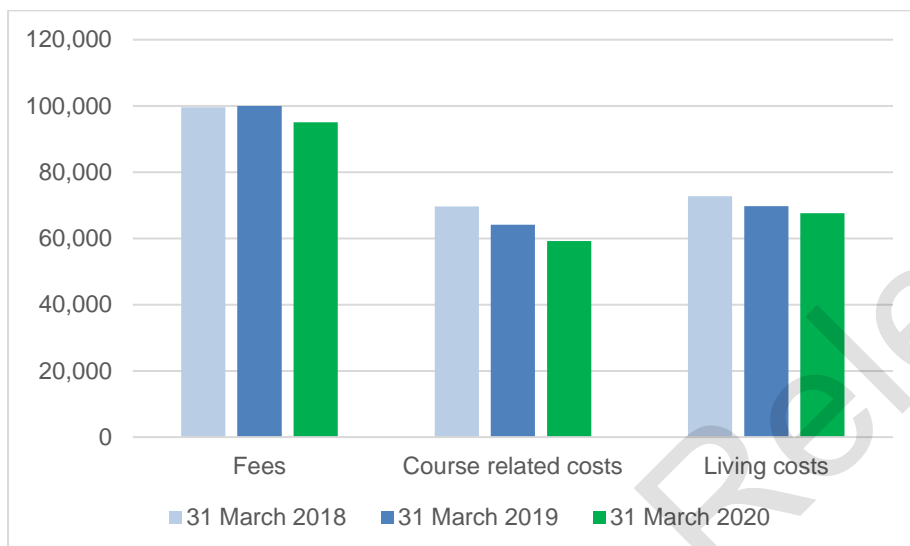
Figure 1: Total student loan borrowing by component (\$) - quarter three

Source: MSD

¹ Borrowing refers to the amount students borrow using their student loan. A borrower is anyone who has borrowed from the Scheme and who has not yet repaid this borrowing in full. This includes the amount borrowed for fees, course related costs and living costs. These figures do not include the \$60 establishment fee and do not allow for repayments and fee refunds.

15. Overall, 4,945 (4.1%) fewer students borrowed in quarter three compared with the same quarter in the previous financial year. Figure two shows decreases in the number of students borrowing for fees (4,979, or 5%), course-related costs (4,888, or 7.6%) and living costs (2,134, or 3.1%).
16. This aligns with the ongoing trend of declining tertiary enrolments and is a continuation of the pattern seen in the 2019 calendar year. COVID-19 did not significantly affect the number of students borrowing in quarter three.

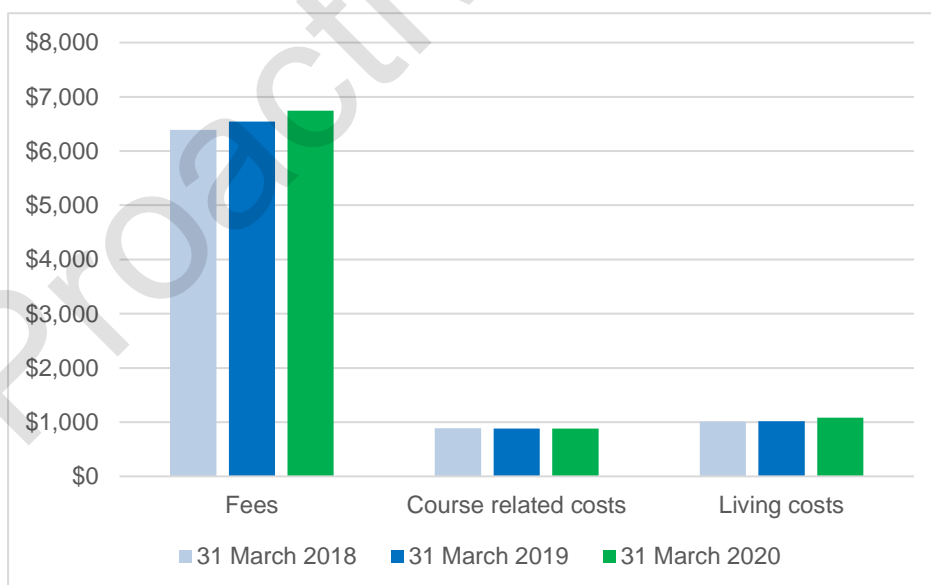
Figure 2: Number of student loan borrowers by component - quarter three



Source: MSD

17. Total average borrowing increased by \$142 (2.2%) per borrower compared with the same quarter in the previous financial year. Figure three shows increases of \$203 (3.1%) to the average amount borrowed for fees and \$62 (6.1%) for living costs. The average amount borrowed for course-related costs decreased by less than \$2 (0.2%).

Figure 3: Average borrowing per student by component (\$) - quarter three



Source: MSD

Loan repayments² in quarter three

18. Overall student loan repayments increased by \$13.6m (3.8%) in quarter three compared with the same quarter in the 2018/19 financial year. This reflects increases in repayments received directly from borrowers (4.9%) and repayments made through employer deductions (3.4%). Repayments from New Zealand based borrowers were up by 14.6%, while repayments from OBBs slightly decreased by 2.5%.
19. IR has made significant inroads engaging with more borrowers to repay their student loans. The increase in repayments can be attributed to policy administration changes, better management of collections by IR, more borrowers in employment and making repayments, and higher repayments due to a slight increase in borrower income.
20. We expect that COVID-19 may affect repayments in future quarters. Rising unemployment and the economic effects of efforts to contain COVID-19 globally may hinder borrowers' ability to make repayments.

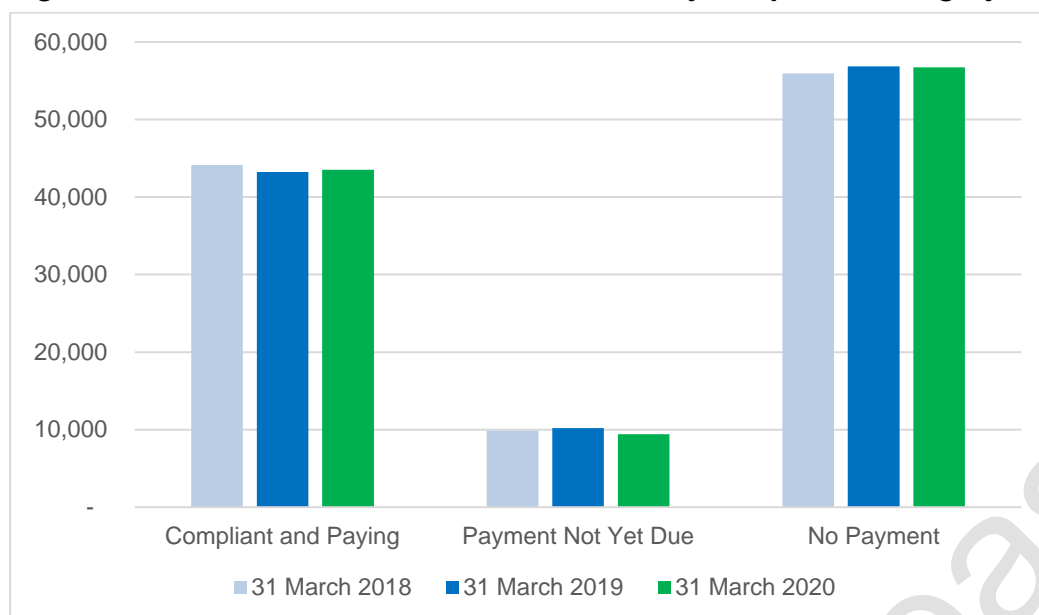
Default in quarter three

21. The total number of borrowers in default increased by 3.1% in quarter three compared to the same quarter in the previous financial year. The total amount of student loans in default is \$1,481m, an increase of 11.5% compared to the same time last year.
22. The increase in the total amount in default continues to be attributed to late payment interest charges on overdue amounts for OBBs. It may also be due to reduced collection activity by IR as resources have been focused on its Business Transformation Programme. COVID-19 did not greatly impact New Zealand until the end of the third quarter, which means it is unlikely to be a contributing factor here.

Overseas-based borrowers quarter three

23. Figure four shows there are slightly more OBBs who are compliant or repaying in quarter three (43,514) compared with the same quarter in the previous financial year (43,246). The number of borrowers not paying is also up slightly – 56,867 compared with 56,732 in quarter three of the 2018/19 financial year.
24. This minor increase in compliance may be driven by IR's greater focus on helping OBBs get their repayments back on track. Government education for OBBs on their obligations and consequences of not meeting them, and repeated media attention on OBBs arrested for trying to leave New Zealand may also be contributing factors.

² The Student Loan repayment threshold sets the amount of income a New Zealand based borrower can earn before they are required to start making repayments on their Student Loan balance. This threshold can be adjusted by Order in Council and has been increased annually by the rate of CPI (excluding tobacco) to ensure that, over time, price level rises do not increase the risk that an individual's repayment obligations are causing them financial hardship.

Figure 4: Number of overseas-based borrowers by compliance category³ - quarter three

Source: IR

Scheme performance in quarter four

Table 2: Borrowing and repayments over quarter four (1 April to 30 June) for 2019/20

	Borrowing (\$m)	Repayments (\$m)
	Apr to Jun 19	Apr to Jun 19
	\$246.6	\$344.2
	Jan to Mar 20	Jan to Mar 20
	\$301.6	\$423.9
Difference	\$55	\$79.7

Source: MSD and IR

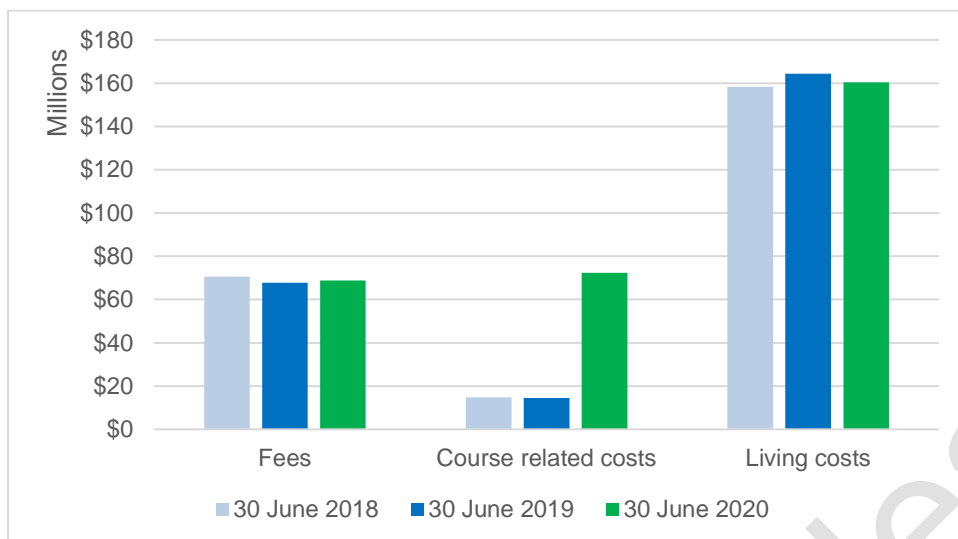
Loan borrowing in quarter four

25. Borrowing in quarter four was up \$55m (22.3%) compared with the same quarter in the 2018/19 financial year. This reflects increases of \$57.8m (399.2%) in borrowing for course-related costs, and \$1m (1.6%) in borrowing for fees. There was an almost \$4m (2.4%) decrease in borrowing for living costs (figure five).
26. The considerable increase in borrowing for course-related costs can be attributed to the temporary COVID-19 response measure allowing students to borrow up to \$2,000 in 2020, instead of the normal \$1,000 maxima. There were also 40,920 (187.2%) more students borrowing for course-related costs compared to quarter four in the previous financial year.
27. Borrowing for fees was up \$1m (1.6%) despite 1,496 fewer students borrowing for fees. This increase was expected due to fee rises (within regulated fee limits) and trends towards courses with higher fee costs and full-time study.

³ Compliance means borrowers who are meeting their current obligations and are not in default, or borrowers who are repaying their default amount.

28. The 2.4% decrease in borrowing for living costs can be attributed to 3,072 (4.3%) fewer students borrowing for living costs, compared to the same quarter last financial year.

Figure 5: Total student loan borrowing by component (\$) - quarter four

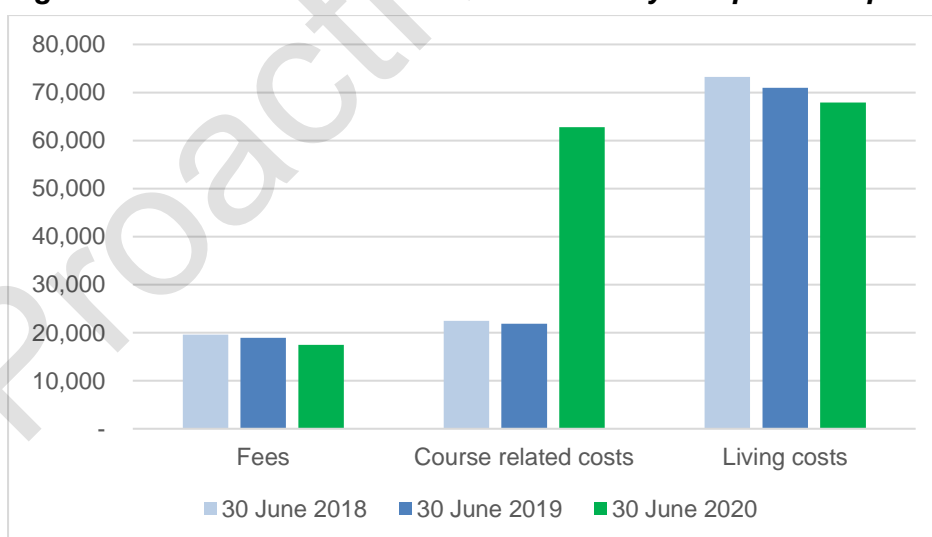


Source: MSD

29. Overall, 9,507 (11%) more students borrowed in quarter four this year. Figure six shows 40,920 (187.2%) more students borrowing for course-related costs compared with quarter four in the previous financial year. The increase in the number of students borrowing this quarter, particularly for course-related costs, is likely due to the temporary measure allowing students to borrow up to \$2,000 in 2020, instead of the normal \$1,000 maxima. This means that many students who borrowed for course-related costs in quarter three also borrowed for the increased entitlement in course-related costs in quarter four.

30. Meanwhile, 1,496 (7.9%) fewer students borrowed for fees, and 3,072 (4.3%) fewer students borrowed for living costs.

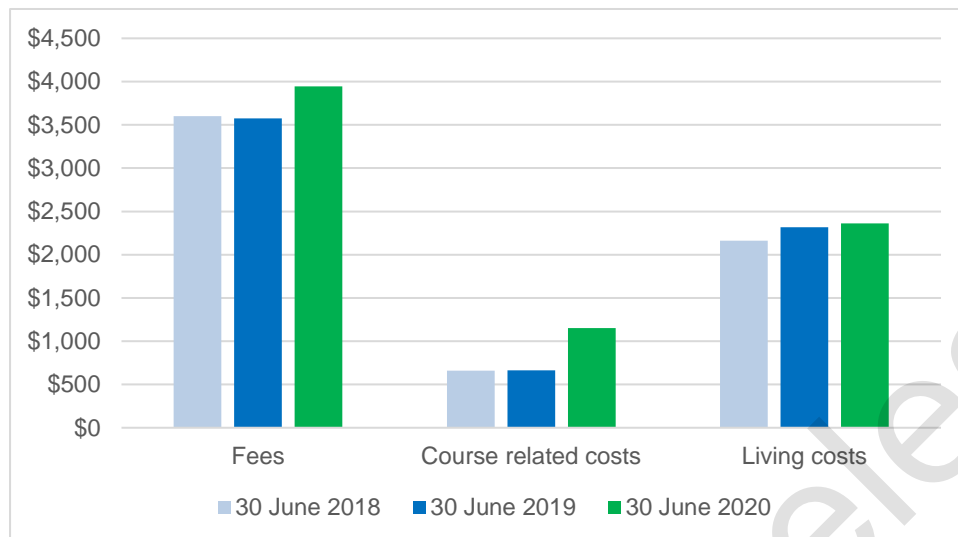
Figure 6: Number of student loan borrowers by component - quarter four



Source: MSD

31. Total average borrowing increased by \$290 (10.2%) per borrower. Figure seven shows a \$368 (10.3%) increase in the average amount borrowed for fees, and a \$47 (2%) increase in the average amount borrowed for living costs. The average amount borrowed for course-related costs increased by nearly \$490 (73.8%). This aligns with the impact recorded through the temporary increase in course-related costs entitlement.

Figure 7: Average borrowing per student by component (\$) - quarter four



Source: MSD

Loan repayments in quarter four

32. Overall loan repayments increased by \$79.7m (23.2%) in quarter four compared with the same quarter in the previous financial year. This was mainly driven by a 30.5% increase in repayments made through employer deductions. Repayments directly from borrowers were 6.1% higher. There were also increases in repayments from OBBs (11.7%) and New Zealand based borrowers (1.2%).
33. The increase in repayments made through employers reflects the movement of the student loan scheme accounts to IR's new platform in 2020. This means that student loan repayments through the PAYE system are now being accounted for earlier than in previous years. As a result of this, an additional \$70m in repayments has been attributed to the 2019/20 financial year.
34. The increase in repayments from OBBs may be attributed to OBBs making repayments as they return home due to the global pandemic. We expect to see COVID-19 having a bigger impact on these statistics in the coming quarters.

Default in quarter four

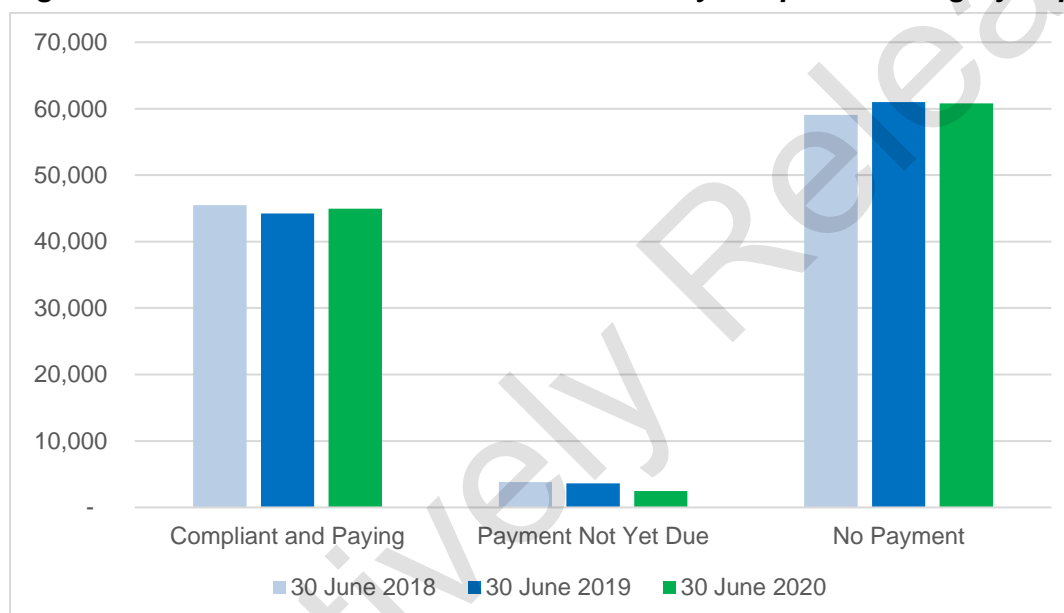
35. The total number of borrowers in default in quarter four is slightly down (0.5%) compared with the same quarter in the previous financial year. However, the amount of student loans in default is up by 6.6%, with \$1,579m representing the total amount of student loans in default.
36. The increase in the total amount in default continues to trend upwards from the previous quarters. OBBs may return to New Zealand with their debt due to the COVID-19 pandemic. It takes six months for an OBB who has returned to New Zealand to be deemed New Zealand based and stop paying interest on their loan, so it may take some time until this shift is seen in the data. More information on the number of OBBs returning to New Zealand will be available in time for the Student Loan Scheme Annual Report.

37. New Zealand was not greatly impacted by COVID-19 until the end of quarter three. Given the current economic climate, the increase in the amount of student loans in default may continue into the end of 2020 and beyond.

Overseas based borrowers in quarter four

38. Figure four shows there are slightly more OBBs who are compliant or repaying in quarter three (44,944) compared with the same quarter in the previous financial year (44,215). There has also been a very small decrease in the number of borrowers not paying – 60,828 compared with 60,991 in quarter four of the 2018/19 financial year.
39. This minor increase in compliance may be due to IR's greater focus on helping OBBs to get their loan repayments back on track. Repeated media coverage on arrests of OBBs trying to leave New Zealand, as well as government education of OBBs on their obligations may also have contributed to the increase.

Figure 8: Number of overseas-based borrowers by compliance category³ - quarter four



Calendar year-to-date loan borrowing and loan repayments

Calendar year-to-date Student Loan borrowing

40. Total borrowing from January to June was up \$39.2m (3.8%), compared with the same period in 2019. This represents an increase of \$53.4m (75.2%) in borrowing for course-related costs, partly offset by reductions in borrowing for fees and living costs of \$12.2m (1.7%) and \$1.9m (0.8%) respectively (see table 3).
41. Average borrowing increased by \$506 (6.5%) per student. Compared with 2019, 4,464 (4.1%) fewer students borrowed for fees, with an average increase of \$161 (2.5%) borrowed per student. This is expected to be due to annual compulsory course fee increases and the trend towards more full-time study. Although 3,149 (4.1%) fewer students borrowed for living costs (see table 4), average living cost borrowing increased \$104 (3.4%) per student.

Table 3: Student Loan borrowing, 2019 and 2020 calendar years

	As at 30 June 2019	As at 30 June 2020	% change
Fees	\$721,956,028	\$709,718,222	-1.7%
Course related costs	\$71,042,347	\$124,464,060	75.2%
Living costs	\$235,521,834	\$233,585,722	-0.8%
Total	\$1,028,520,209	\$1,067,768,004	3.8%

Source: MSD

Does not include repayments and refunds

Table 4: Student Loan borrowers, 2019 and 2020 calendar years

	As at 30 June 2019	As at 30 June 2020	% change
Fees	110,146	105,682	-4.1%
Course related costs	77,077	77,996	1.2%
Living costs	76,778	73,629	-4.1%
Number of students	131,640	128,348	-2.5%

Source: MSD

Calendar year-to-date repayments and overdue repayments

42. To put the information about loan repayments and default into the wider loan repayment context, we have included the calendar year-to-date repayments and default in table five. These figures show a 7.8% increase in repayments from the previous year. Repayments through employers have increased by 9.7%. There have also been increases in repayments directly from New Zealand borrowers (2.7%) and OBBs (2.6%).
43. The overdue amount continues to increase as it does each year because of the late payment interest charges on amounts each month that are overdue. However, the number of borrowers in default has decreased slightly by 0.5%.

Table 5: Repayments and overdue repayments, 2019 and 2020 calendar years

	As at 30 June 2019	As at 30 June 2020	% change
Repayment via employers	\$996.1m	\$1,092.8m	9.7%
Repayment direct from borrowers:			
New Zealand based	\$168.2m	\$172.8	2.7%
Overseas-based	\$206.2m	\$211.6m	2.6%
Total	\$1,370.7m	\$1,477.3m	7.8%
Overdue amount at Jun	\$1,481.0m	\$1,579.2m	6.6%
Number of defaulting borrowers	104,103	103,604	-0.5%

Source: IR

Scheme forecast in quarter three

Borrowing versus forecast⁴

44. Quarter three of the 2019/20 financial year saw a \$28.6m decrease in borrowing compared with forecast. This was mainly due to a 3.4% underspend on course fees.

Table 6: Borrowing versus forecast for quarter three ending 31 March 2020

	Jan to Mar 2019	Jan to Mar 2020
Actual lending	\$782.6m	\$766.9m
As a percentage of forecast	100.8%	96.4%

Collections performance compared with IR's forecast and the valuation forecast

45. Repayments received directly from borrowers are 84% of what we expected in total repayments for quarter three of the 2019/20 financial year, and employer deductions are 104% of expectation. Overall actual repayments for this quarter tracked well against the forecast.

Table 7: Net repayment versus forecast for quarter three ending 31 March 2020

	Jan to Mar 2019	Jan to Mar 2020
Actual	\$356.1m	\$369.7m
As a percentage of forecast	94%	98%

Scheme forecast in quarter four

Borrowing versus forecast

46. The last quarter of the 2019/20 financial year saw a \$47.8m overspend compared with forecast. The forecast predates the increase to course-related costs. Course-related costs accounted for an overspend of \$58.6m, which was partially offset by an underspend of \$9.5m on living costs.

Table 8: Borrowing versus forecast for quarter four ending 30 June 2020

	Apr to Jun 2019	Apr to Jun 2020
Actual lending	\$247.4m	\$302.5m
As a percentage of forecast	97.4%	118.8%

Collections performance compared with IR's forecast and the valuation forecast

47. Repayments received directly from borrowers are 90% of what we expected in total repayments for quarter four of the 2019/20 financial year. Employer deductions are 107% of expectation and overall actual repayments for this quarter were 109% of forecast. This is due to the repayments being accounted for earlier with the movement of the student loan scheme to IR's new platform in 2020.

⁴ MoE prepares student loan forecast information for MSD twice a year for BEFU and HYEFU, and PREFU in election years.

Table 9: Net repayment versus forecast for quarter four ending 30 June 2020

	Apr to Jun 2019	Apr to Jun 2020
Actual	\$344.2m	\$423.93m
As a percentage of forecast	89%	109%

Ongoing work on Scheme settings

IR Business Transformation Programme

48. IR continues to go through a multi-year transformation programme that includes moving student loan customers to a new system. In preparation for transformation, IR focused on ensuring student loan accounts were as accurate as possible before they were shifted.
49. The changes, successfully implemented in April 2020, also provided the ability to write off student loans taken out before 2000 in cases of identity theft and relief for OBBS in exceptional circumstances. Since 1 April 2020, IR has written off three student loan balances identified as identity theft totalling \$259K. OBBS with serious illnesses or disabilities may be treated as New Zealand based so they are no longer subject to loan interest. Since this law was enacted, IR has approved twelve applications.

Release of Student Loan statistics

50. IR and MSD published quarterly student loan statistics to March 2020 on the agencies' respective websites on 25 June 2020. Statistics to June 2020 are expected to be published in October 2020.

Annexes

Annex 1: Further information on legal cases

Annex 2: Overview of advice on ongoing work related to the Student Loan Scheme

Annex 1: Further information on legal cases

Australia

- (a) 5 Notice of proceedings were filed in NZ court.
- (b) 4 defendants were served in Australia.
- (c) 1 defendant has set up instalment arrangement of \$4000.00 monthly to pay off the debt in full upon service of Notice of proceedings.
- (d) 1 Judgment by default was granted by NZ court. Case Officer is negotiating with the borrower for a lump sum payment or instalment arrangement.
- (e) 1 bankruptcy proceedings case has set up instalment arrangement of \$1,000.00 weekly.
- (f) Another case defendant was served with the bankruptcy notice and we have set up instalment arrangement of \$1,200.00 monthly.

United Kingdom

- (a) 1 Notice of proceedings has been sent to our legal provider in the UK.

Warrant to arrest

- (b) We have 1 active warrant of arrest yet to be executed.

Annex 2: Overview of advice on ongoing work related to the Student Loan Scheme

The table below provides an overview of recent reports sent to you regarding ongoing work on or related to the Student Loan Scheme.

Titles of recent reports	Date	Minister
<i>Ministry of Education</i>		
Education report – Ensuring micro-credentials and other short, flexible tertiary education and training options [METIS 1227146 refers]	4/8/2020	Hipkins
<i>Ministry of Social Development</i>		
MSD LEG Cabinet paper – Student Allowances (Christchurch Mosques Attack) Amendment Regulations 2020 [CAB-20-MIN-0348]	Cabinet 27/7/2020	Sepuloni
MSD LEG Cabinet paper - Annual general adjustment 2020 and related regulatory changes	Cabinet 24/2/2020	Sepuloni
<i>Inland Revenue</i>		
Tax Administration (Direct Credit of Refunds of Excess Child Support and Student Loan Payments) Order 2020	09/01/2020	Nash
Supplementary Order Paper to the Taxation (KiwiSaver, Student Loans and Remedial Matters) bill	05/02/2020	Nash
Student Loan Scheme (Details of Borrower's Contact Person) Amendment Regulations 2020	04/02/2020	Nash
Advice for providing financial relief to student loan borrowers – COVID-19 (Sensitive)	22/04/2020	Nash