History

The Student Loan Scheme (SLS) has now been operating for twenty years. Since it began in 1992 it has undergone a number of modifications. ¹

A recent summary published by the Ministry of Education sets out the “key policy changes” made to the SLS through its history. Between 1992 and 2012 there have been at least 15 such changes. Some significant ones are:

- 1993 – The academic requirement (that a borrower must have passed at least half of the previous two years tertiary work) is abolished
- 1997 – change to amount that can be borrowed for living costs
- 1999 – change to how payments are made, restrictions on what can be borrowed for and introduction of requirement of parental consent for borrowers under 18
- 2000 – abolition of interest for full-time, full-year students and part-time or part-year students on low incomes
- 2001 – new interest-setting mechanism established
- 2006 – loans made interest-free for all borrowers living in New Zealand
- 2007 – three-year repayment holiday for overseas borrowers introduced
- 2009 – living costs component indexed by inflation
- 2011 – life-time borrowing limit of seven EFTS² per student introduced and academic requirement re-introduced
- 2012 – three-year overseas repayment holiday reduced to one year

Changes planned for the future are briefly detailed at the end of this paper.

¹ Along with the SLS, the Student Allowances Scheme is also part of the broader student support system. The Student Allowances Scheme was introduced in 1989 and since that time has also undergone change. The scope of this brief paper does not permit separate consideration of the Student Allowances Scheme. Please consult the Ministry of Education summary referred to above for more information on changes to the Student Allowances Scheme.

² EFTS (Equivalent Full-time Student) is a measure of the workload required for a course. A year of full-time study is usually between 0.8 EFTS and 1.2 EFTS.
The SLS Annual Report

The SLS Annual Report is published by the Ministry of Education. Reports since 2000 are available online. Each year the amount of data available for analysis increases and the 2012 Report contains a wealth of useful information. Much of the material below is drawn from this document. It is recommended that anyone seeking full details and a more comprehensive account of the concepts dealt with below refer to the SLS Annual Report 2012.

Agencies

The three government agencies principally involved with the SLS are:

- The Ministry of Education – has overall responsibility for the SLS and provides policy advice, quality assurance and monitoring.
- The Ministry of Social Development (through StudyLink) – assesses applications and makes payments.
- Inland Revenue – manages the collection of current and overdue loan repayments and provides loans account information.

In addition, Statistics New Zealand, the Tertiary Education Commission and the New Zealand Qualifications Authority also have an interest in the SLS.

Valuation

The value of the SLS is reported in three different ways; the nominal value, the carrying value and the fair value. While the nominal value is important, on its own it is not sufficient as a complete and accurate measure of the value to the government of the SLS as an asset.

1. Nominal value

In popular discussions of the size of the SLS debt, it is the nominal value that is most frequently mentioned. The nominal value is the total amount owed by borrowers at a point in time. This amount includes loan principal, interest and penalties and takes into account repayments. The total amount owed by borrowers changes from year to year and an increase or decrease in the nominal value indicates this change. This could also be considered as the ‘face value’ of the loan.

2. Carrying value

In accounting terms, the amount owed to the government by borrowers in the SLS is considered a government asset. However, the value of this asset is not the same as the nominal value, but must be discounted to provide a more realistic assessment of what SLS borrower’s debt is actually worth to the government, taking account of the expected timing of repayments and of the fact that some loans won’t ever be repaid in full.

3. Fair value

The fair value makes a similar measurement to that made by the carrying value. However the fair value is slightly different as it is adjusted for the most recent changes in market interest
rates. More detailed information about the fair value and the carrying value and the assumptions used in calculating them can be found in section 4.1 of the SLS Annual Report 2012.

**Value of the Student Loan Scheme at 30 June**

The table and graph below give the nominal, carrying and fair values of the SLS between 2003 (when the fair value was first determined) and 2012.

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</thead>
<tbody>
<tr>
<td>Nominal value</td>
<td>6,094</td>
<td>6,821</td>
<td>7,499</td>
<td>8,370</td>
<td>9,413</td>
<td>9,573</td>
<td>10,259</td>
<td>11,145</td>
<td>12,070</td>
<td>12,969</td>
</tr>
<tr>
<td>Carrying value</td>
<td>5,370</td>
<td>5,995</td>
<td>6,465</td>
<td>5,569</td>
<td>6,011</td>
<td>6,741</td>
<td>6,553</td>
<td>6,790</td>
<td>7,459</td>
<td>8,291</td>
</tr>
<tr>
<td>Fair value</td>
<td>5,592</td>
<td>5,734</td>
<td>5,994</td>
<td>5,537</td>
<td>5,443</td>
<td>5,521</td>
<td>5,464</td>
<td>6,261</td>
<td>7,221</td>
<td>8,527</td>
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**Initial write-down**

In addition to the carrying value and fair value discounts, which are ongoing and applied to the total debt value, there is also an initial discount applied to the value of each new loan at the time the loan is made. This write-down recognises the fact that the sum lent loses value as time goes on. Also, the government expects that some of the loans it makes will never be fully paid back. Some borrowers will never earn above the repayment threshold or will die or be declared bankrupt before they have paid off their loan, and some borrowers may deliberately avoid paying back their loan.
These factors are accounted for by regarding a proportion of every dollar lent as an operating expense. The proportion that is expected to be repaid is regarded as capital expenditure. The initial write-down is an estimate because it is based on predictions about interest rates and borrower behaviour (especially the timing of repayments), but it is sometimes used as an indication of the cost to the government of the SLS.

**Initial write-down for year ended 30 June**

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<tbody>
<tr>
<td>Cents per dollar lent</td>
<td>40.25</td>
<td>39.15</td>
<td>47.39</td>
<td>45.25</td>
<td>44.62</td>
<td>39.09</td>
</tr>
</tbody>
</table>

For more detail please see section 4.2 of the [SLS Annual Report 2012](#).

**Budget 2012 changes**

A number of changes to repayment obligations were announced as part of Budget 2012:

- Increasing the student loan repayment rate from 10 percent to 12 percent, from 1 April 2013.
- Ending the voluntary repayment bonus scheme, on 31 March 2013.
- Extending student loan data matching between Inland Revenue and the New Zealand Customs Service, to identify student loan borrowers in serious default.
- Broadening the definition of income for student loan repayment purposes from 1 April 2014, to include income from trusts and other sources.

Dr Damien Cole  
Research Analyst  
Parliamentary Library  
Email: Damien.Cole@parliament.govt.nz