

# Educational Loan Repayment in Malaysia

## A Conceptual Framework

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### Abstract

This paper presents a conceptual framework for the effect of socio-demographics on university students' attitude towards educational loan repayment in Malaysia. It will analyze and consider possible effect that link students' attitude toward loan repayment measures to socio-demographic characteristics. Simultaneously, it also measures the reliability and validity of awareness and attitude towards loan repayment, and the relationship with socio-demographic characteristics. In order to develop reliable and valid measures, it seeks to reveal whether or not socio-demographic characteristics influence the students' attitude. The work concerns mainly socio-demographic characteristics of students / borrowers affecting loan repayment or whether students' attitude is the main factor determining loan repayments in Malaysia. The contributions are expected to form the basis of the research problem and are constructed within a conceptual framework adapted from the Fishbein Ajzen theory of reasoned action (TRA). The socio-demographic characteristics that influence stages in relation to the conceptual framework will be identified. The significance of the effect of each characteristic will be evaluated.

### Introduction

Educational loan schemes have been introduced both in developed and developing countries, as a policy option facilitating students to pursue higher education (HE). The schemes further help reducing the financial pressures on governments to support HE students (Serrem, 1998). There is a variety of educational loan types and structures offered in different countries. The major types include mortgage type loans (MTL) and income contingent loans (ICL) (Vodopivec, 2008).

The importance of the problem is emphasized by the fact that HE has increased rapidly, both in developed and developing countries, along with the considerable growth in education costs. The ability of students and their families to meet the increasing costs has a significant effect on the HE sector sustainability and development. Most countries have introduced some schemes for HE student's financial support, however these schemes are mainly country-specific (Barr, 2003; Chapman, 2006). Usually, a dedicated institution is set up to organise the educational loans, and the finance is provided by both government and private funds. Importantly, most countries realize that they cannot rely on the government budget only to fund their students. The governments have limited resources to meet a number of social needs such as healthcare and housing along with education.

Some research has been done to find out the main problems of loan schemes in developing countries (Serrem, 1998; Chapman, 2006; Migali, 2006). The findings identify the

main problems as the default caused by non-repayment from students, as well as poor administrative structures and record keeping in the loan governing body. In addition, further issues include the lack of qualified personnel, the risk aversion of poor students, and the mortgage type repayment of loans. Most of these problems have been resolved to some extent in developed countries (Barr, 2003).

Malaysia is categorised as a developing country and the type of student loan scheme implemented in the country is mortgage-type loans (MTL). According to the scheme, the amount students can borrow depends on the subjects and course taken, and requires a fixed repayment period of monthly payments. It also includes a fixed administration cost, which begins six months after graduation or when the student secures a job, whichever is earlier (NHEFC, 2008). To administer the loans, the Government of Malaysia has formed the National Higher Education Fund Corporation (NHEFC) as the agency responsible for the whole process. However the system did not work well in terms of repayment collection. It is due to economic conditions in Malaysia, where the graduate income is uncertain and the level of unemployment among graduates is considerable. Therefore, many students do not pay back the loans (NHEFC, 2008). The problems are getting worse with the current recession in Malaysia, and the non-repayment of loans has increased.

NHEFC, until October 2008, had taken legal actions against 18,532 borrowers because they defaulted on their loans (Ridzuan, 2008). According to the Ministry of Higher Education in Malaysia, Datuk Seri Mohamad Khaled Nordin in Parliament, the majority of borrowers contributed to default were Malay amounting 15,457, followed by Chinese 1,433, Indian 991, and others 651. He also mentioned that the action taken to bring the borrowers to courts was the last resort, after a few earlier measures were taken such as issuing a warning letter (Utusan Malaysia, 2008). Until July 2008, the total number of borrowers was 1.14 million, with total loans of Malaysian Ringgit 23 billion (GBP 4.26 billion). About 49 per cent of loans were unpaid by the borrowers, which cost Malaysian Ringgit 708 million (GBP 131 million) (Ridzuan, 2008).

This paper is focus on developing a conceptual framework of socio-demographic characteristics of students / borrowers affecting loan repayment problems in Malaysia. The authors intend to link students' attitude toward loan repayment measures to socio-demographic characteristics. In addition, the study will investigate the reliability and validity of awareness and attitude towards loan repayment and the relationship with socio-demographic characteristics. In order to develop reliable and valid measures, it seeks to reveal whether or not socio-demographic characteristics influence the students' attitude towards loan repayment.

The paper will be structured as follows. First, a brief discussion about the theory of reasoned action (TRA), the theory selected to base the conceptual framework on. After that, we will review previous studies related to a conceptual framework and the development of hypotheses. In the last part of the paper, we propose the research framework and discuss expected contributions.

### **Background of a conceptual framework**

An increasing awareness of the importance to repay the loan among university students and the deepening of attitudes towards the loan repayment has been observed in many western societies over the past decades (Volkwein and Szelest, 1995; Baum and Schwartz, 1988). What puzzles some researchers, however, is that deep concern about loan repayment does not match actual behaviors. The individual student is found not to relate his or her own behavior to the

worsening of the loan default. This caused some researchers to diagnose a so-called ‘attitude-behavior gap’ or words-deeds inconsistency (Peattie, 1995; Wagner, 1997). Such a diagnosis may be problematic; it pointed out that attitudes or concern can only be considered a reliable variable for the prediction and explanation of behavior if, and only if, attitudes are issue-specific (Fishbein and Ajzen, 1975; Ajzen and Fishbein, 1980; Follows and Jobber, 2000). The conceptual framework guiding this research is depicted in Figure 1, which present the theory of reasoned action in Figure 1(a), next, part of the theory that have been selected in this study in Figure 1(b) and Figure 1(c) illustrates the derive research framework propose.

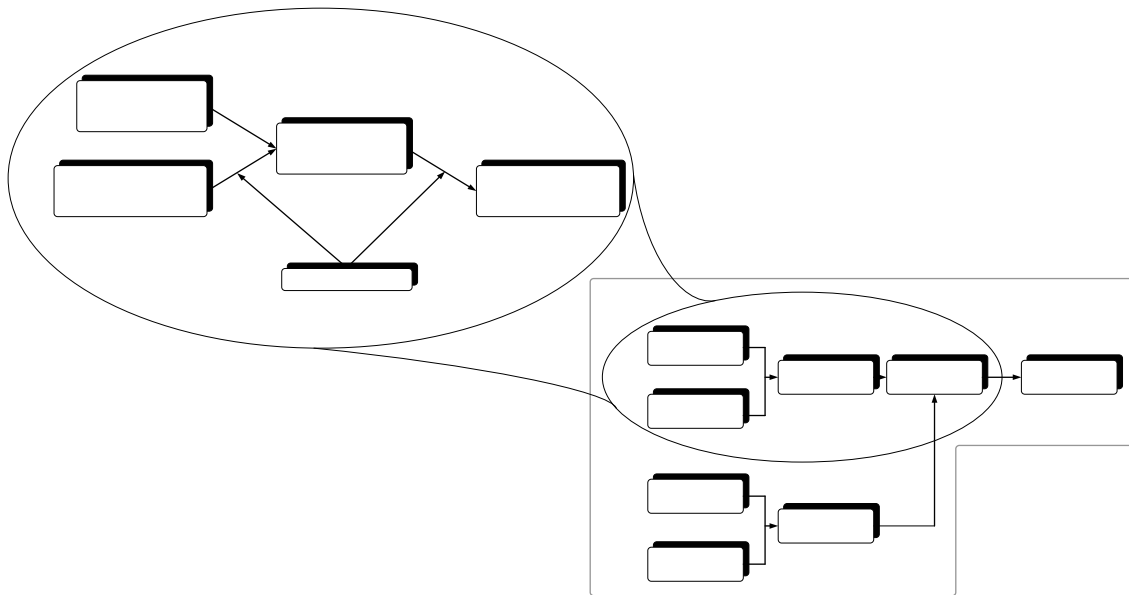


Figure 1: (a) Theory of reasoned action (b) Theory adapted to the framework (c) Research framework proposed.

### Theory of reasoned action

The theory of reasoned action (TRA) as explained in figure 1 (a) was developed by Martin Fishbein and Icek Ajzen as an improvement over information integration theory (Ajzen and Fishbein, 1980; Fishbein and Ajzen, 1975). The TRA recognizes that there are situations or factors that limit the influence of attitude on behavior. Because it separates behavioral intention from behavior, TRA also discusses the factors that limit the influence of attitudes or behavioral intention in behavior. Therefore, TRA predicts behavioral intention, a compromise between stopping at attitude predictions and actually predicting behavior. For example, if the attitude of student lead him/her to pay the loan, but other factors such as having to commit this money to the family due to poor family background, then this will prevent his/her attitude causing him/her to repay the loan.

Subjective norms or the expectations of other people to predict the behavioral intention such as whenever attitudes lead to do one thing but the relevant norms suggest something else, and both factors influence behavioral intent. For example, student attitude may encourage him/her to pay the loan, but his/her friend may think this is not important, so does he/she do what attitudes suggest (pay the loan) or what the norms of his/her friends suggest (not pay the loan). Specifically, TRA predicts that behavioral intent is created by two factors which are attitudes and subjective norms. Attitudes have (Knowledge about loan repayment) are belief (the belief strength of an attitude that supports the persuasive goal) and evaluation (the evaluation of an

H1

H2

Attitude

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Evaluation

attitude that supports the persuasive goal). For subjective norms, they are also two components which are normative beliefs (what I think others would want or expect me to do) and motivation to comply (how important it is to me with what I think others expect me to do) (Fishbein and Ajzen, 1975).

The TRA also is a causal model with two main paths. In the first path, is beliefs, which are perceptions of facts (e.g. student have knowledge about repayment) cause attitudes, which are evaluations based upon beliefs (e.g. student aware that loan repayment is important), which cause intention to act (e.g. student intent to pay the loan after finished the study), which causes behavior (e.g. student pay the loan). In the second paths, input from significant others, (e.g. his/her friend thinks that he has knowledge about repayment) causes perceptions of social acceptability (i.e. most students aware that loan repayment is important), which causes intention to act, which causes behavior. TRA is successful when applied to behaviors that are under a person's volitional control (Ajzen, 1985; 1991).

As shown in figure 1(b), although the TRA will be used as a conceptual framework in this study, however, this study only include the first paths which are beliefs, evaluation as well as attitude about the behavior which causes intention to act. Others will not include because the present study was conducted to determine whether TRA could be used to measure the knowledge and awareness on students' attitude towards loan repayment among Malaysian university students. Other than that, the socio-demographic characteristics as moderation effect will also be tested in this study.

### **Previous studies related to a conceptual framework**

Figure 1(c) explained about the development of a conceptual framework as well as hypotheses. Many prior studies evaluated the relationship between borrower and default behavior, the general finding of most researchers today is that the background of the borrower plays a smaller role in predicting who will default (Volkwein et al., 1998). Students who are successful in their studies tend to have lower default rates than those who are not. This is a finding that loan repayment is seemed to be a factor that are partially under the control of the borrower. Moore (1995) found students remained persistent in their belief that higher education was a way to find satisfaction in life. However, McWade (1996) reasoned that students should consider five things before creating a debt which are future income, amount of time needed to repay loan, interest rate charged, personal lifestyle planned after graduation, and unexpected circumstances that could influence future income or the ability to repay amount borrowed. He also presented that the long-term impact of debt needed to be considered by students prior to any decision about debt accumulation.

### **Attitude towards loan repayment**

Weak linkages between attitudes and behavior have often been noted in the previous studies in many western societies (Volkwein and Szelest, 1995; Baum and Schwartz, 1988). Attitude here refers to the borrower's attitude toward a variety of things which could affect his or her propensity to default including loans (Volkwein and Szelest 1995). Quantitative research as well as interviews with students, staff, and faculty indicates that students possess certain characteristics that cause them to default on their loans, including their attitude toward debt and default (Christman, 2000). A study by Abu Bakar et al. (2006) found that overall the respondents

had negative attitudes towards the loan and the repayment of such loan. Hence, the negative attitudes and perceptions may affect the repayment of the loan once they graduated.

Yieh (as cited in Chien & DeVaney, 2001) found that households headed by African American, female, married, and unemployed, were likely to have a negative attitude toward installment borrowing. A study of non-federally guaranteed loans in the early 1990s found that the variables associated with borrower characteristics, such as ethnicity and family income, were entered into the model developed. The findings are the characteristics of the school the borrower attended are primarily related to borrower willingness and ability to repay, not to anything the institution is doing (Monteverde, 2000). A study by Kitaev et al. (2003) found that negative borrower attitudes towards repayment make the repayment dropped to a mere 2 per cent. However, a study by Education Resources Institute (TERI) and The Institute for Higher Education Policy (1995) indicates that the students' strong indicator that corresponded to positive repayment behaviors was the grade point average. St. John (1998) reported 59 per cent of the African American student loan borrowers felt "extremely" or "very" burdened by student loan payments. However, a study by Volkwein and Szelest (1995) found that loan repayment and default behaviour can mostly be predicted by the characteristics of individual borrowers, including behaviour.

A study by Baum and Schwartz (1988) found that the negative attitude occurs when repayment obligations had delayed the home ownership, car ownership, living apart from parents, postpone having children and postpone marriage. Concern has been voiced how undergraduate debt obstruct student borrowers from buying cars, buying a home, having children or moving out of their parents' home after graduating (Baum and Sounders, 1998). Similarly to Zhou and Su (2000) identified that the increased cost of college-education caused student borrowers to delay starting families, purchasing new homes, and making other major life decisions. A study by Cofer and Somers (1999 and 2000) found that for those who completed their degree program, 40 per cent of students with debt delayed purchasing a home, 31 per cent delayed purchasing a car and 22 per cent delayed having children. On the other hand, they found that higher student debt levels decreased enrolment at both public and private colleges as well as prevented them from staying in school. It is proved by survey in 1997; borrowers found that 70 per cent of Black and Asian borrowers did not complete a degree because of loan burden. Therefore, we can formulate a hypothesis as indicated as Hypothesis 3 (H3) in Figure 1 in the following way.

*Hypothesis 3: Attitude of university students will influence the intention to repay the loan*

### **Knowledge about loan repayment**

A study by Abu Bakar et al. (2006) found that university students had knowledge towards loan agreement and loan repayment. The data showed that majority of students are knowledgeable about the NHEFC loan agreement though there were a small percentage of those who did not know basic facts about the study loan they received. Lack of knowledge about repayment is not a strong factor in default, 93 per cent of borrowers surveyed realized the loan had to be repaid. However, one out of four students was confused about the repayment process (Volkwein et al. 1998). Several studies in the US have revealed that students lack of knowledge about certain aspect of student loan borrowing (Hira, Anderson and Peterson, 2000). The other finding was seniors tended to have better knowledge compared to the first year students. A study by Woo (2002) indicates that borrowers who have ever been in deferment are less likely to default because they able to handle repayment. Therefore, we can formulate a hypothesis as indicated as Hypothesis 1 (H1) in Figure 1 in the following way.

*Hypothesis 1: Knowledge about loan repayment will have significant effect on university students' attitude toward loan repayment*

### **Awareness of loan repayment issues**

Students realized loan repayment was required, so ignorance and misinformation seemed not to be a factor in loan default (Volkwein et al. 1998). However, the study found that three out of four students were not aware of loan deferment options (Volkwein et al. 1998). The Education Resources Institute (TERI) and The Institute for Higher Education Policy study (1995) reported students and families believed that education is not an optional purchase or debt, but a necessary objective. A study by Baum and Schwartz (1998) found that approximately 30 per cent of the respondents perceive significant hardship resulting from their loan repayment. On the other hand, about one-half of the respondents do not perceive measurable hardship. A study by Hira, Anderson, and Peterson (2000) point out those students from the same course had some concern about repaying their debt they owned. Therefore, we can formulate a hypothesis as indicated as Hypothesis 2 (H2) in Figure 1 in the following way.

*Hypothesis 2: Awareness of loan repayment issues will influence the attitude of university students toward loan repayment*

### **Socio-demographic characteristics as a moderator effect**

Socio-demographic characteristics are those student brings with him or her to college, such as age, gender, ethnicity, parents' education and income, high school curriculum and achievement (Volkwein and Szelest, 1995). According to Wee and Li, (2007), at the individual level, socio-demographic characteristics may influence behavioural changes. For example, a study by Wenli (2007) has shown that gender, family structure, ethnicity, knowledge, and attitudes are primary factors related to behaviours. Socio-demographic characteristics can be consider as important characteristics because of an ethnically varied, it would be useful to study on different ethnic groups to distinguish any variances that may exist between groups (Salmi, 2005). However, a study by (Livingstone & Lunt, 1992) showed that socio-demographic factors played a relatively minor role in debt repayment.

A moderator is a variable that alters the direction or strength of the relation between a predictor and an outcome (Baron and Kenny, 1986; Holmbeck, 1997; James and Brett, 1984). Other definition is moderator is a qualitative or quantitative variables that affects the direction and /or strength of the relation between and independent or predictor variable and a dependent or criterion variable (Baron and Kenny, 1986). The identification of important moderators of relations between predictors and outcomes indicates the maturity and sophistication of a field of inquiry (Aguinis, Boik and Pierce, 2001; Judd, McClelland and Culhane, 1995). Questions involving moderators address "when" or "for whom" a variable most strongly predicts or causes an outcome variable (Baron and Kenny, 1986) Moderators often are introduced when there are unexpectedly weak or inconsistent relations between a predictor and an outcome across studies. Thus, one might look for the moderators if the evidence for the effectiveness of a given intervention is weak, which maybe because it is effective only for some people. Moderator effects are best detected when the relation between the predictor and outcome is substantial (Chaplin, 1991; Jaccard et. al, 1990). However, moderator often examined when there are unexpectedly weak relations between a predictor and outcome is substantial (Baron and Kenny, 1986; Chaplin, 1991). In this case, socio-demographic characteristics will moderate the

relationship between main constructs which are awareness of loan repayment issues and attitude of university students towards loan repayment.

*Hypothesis 4: The relationship between awareness of loan repayment issues and the attitude of university students is moderated by the socio-demographic characteristics*

*Hypothesis 5: The relationship between attitude of university students and intention to repay the loan is moderated by the socio-demographic characteristics*

Figure 1(c) shows the conceptual framework for measuring students' attitude toward loan repayment adapted from the Fishbein Ajzen theory of reasoned action (TRA). The socio-demographic characteristics are including testing the significant effect and relationship between the main construct.

## Conclusions

The conceptual framework of this study is built on the multi-construct scale adapted from the TRA by Fishbein and Ajzen. Given the argument of the attitude-behavior link, an analysis of attitudinal dimensions alone may not predict actual behavior. Therefore it seems practical to be considered awareness within the domain. However, a focus on that dimensions alone will not provide an insight into the possible motivations generating an individual's attitude or the level of knowledge and the strength of feeling that a student may have about loan repayment. This implies that a knowledge component should be included. The expected contributions targeted for this study are identification of socio-demographic characteristics that influence stages in relation in the conceptual framework as well as the significance effect of each characteristic.

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