



# Debt Composition of University Graduates and their Attitude towards Education Loan

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## Abstract

A worrying trend in the Malaysian higher education environment is that students graduating not only with diplomas or degrees of their disciplines but also with debts. Graduates with debts becomes a serious issue when many of the graduates faced difficulties in repaying not only their education loan but also other debts that they create since entering the job market. This paper examines the debt composition of 186 graduates and their attitudes towards education loans. The education debt-to-income ratio is found to be in the range of 1.8 percent to 12 percent; where a ratio beyond 8 percent is deemed unsafe.

**Keywords:** graduate debts; education loan; debt-to-income ratio; higher education; attitude to education debts.

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<https://doi.org/10.21834/jabs.v2i4.205>

## **1.0 Introduction**

The Malaysian higher education sector has expanded rapidly during the past decade, with increasing number of students enrolling in both public and private universities and colleges. A driving force behind the expansion was believed to be the large provision of student loans. Study loans provided by the the National Higher Education Fund Corporation (PTPTN) was the most dominant source of financial aid for students, especially in private higher education institutions (Nor Rashidah et al., 2009). Since its establishment in 1997, PTPTN had given out RM24 billion to around 1.3 million students in the country. However, up to last year, only RM2.3 billion was collected in loan repayment despite various reminders issued to the borrowers (Bernama, 3/2/2011).

This situation reflects a worrying trend in the higher education environment where students graduating not only with diplomas or degrees of their disciplines but also with some levels of debts. Debts seem to be a norm; part and parcel of college experience. Graduates with debts become a more serious issue when many of the young graduates faced difficulties in repaying not only their education loan but also other debts that they create since entering the job market.

This paper intends to explore the question of whether the Malaysian graduates' education debt levels are manageable financially and emotionally by looking at their debt composition and their attitude towards payment of education loans.

## **2.0 Methodology**

### **2.1 Data and Sample**

The data for this study was collected using a self-administered questionnaire survey. The survey population consisted of graduates who were Malaysians and holding diplomas or degrees from public and private higher education institution, either locally or abroad. The survey managed to get a sample of 186 respondents staying or working in Klang Valley.

### **2.2 Instrument and Variables**

The instrument used in this research was a questionnaire which consists of 4 sections; Section A was on the general particulars of respondents' demographic characteristics, Section B was about their debt composition, Section C asked about their attitude towards education loan, and Section D was on respondents' parents' socio-economic status.

The questionnaire includes general questions regarding respondents' current financial position and debts composition, and specific questions on their education loan debts such as the amount of loans received, the duration period, and the monthly instalments.

A set of "Attitude to education loan scale" were constructed to capture and measure how respondents feel about the education loan burden. The scale consists of the following statements, which were originally constructed based on authors' observations and

preliminary studies:

I am worried about paying back my education loan

I am uncomfortable with the amount of my education loan I feel burdened with my education loan

I feel uncomfortable if I am late in repaying my education loan.

### 3.0 Results and Discussions

#### 3.1 Demographic Characteristics

A total of 186 graduates participated in the survey, where 55 percent were degree holders from public universities, 21 percent with degrees from private universities while 24 percent were diploma holders from public and private colleges. The sample was 47 percent females and 140 of the respondents were under age of 30, while 2 percent were over age 40. In terms of gross income, 40 percent earning less than RM2000 per month while 52 percent earning between RM2001 to RM4000 per month.

#### 3.2 Debt Composition

In the survey, the respondents were asked to rank a set of expenses on debt repayments based on their own priorities. The results are shown in Table 1. Living expenses was chosen as the most important spending followed by payment on car loan. Payment for education loan was ranked the fifth in terms of importance out of 7 items.

Table 1: Ranking of Spending Priority

<i>Current spending</i>	<i>Mean</i>	<i>Ranking</i>
Living expenses	2.15	1
Payment on car loan	3.35	2
Savings	4.01	3
Contribution to parents	4.19	4
Payment for education loan	4.25	5
Payment on housing loan	4.70	6
Payment for credit card usage	6.19	7

Note: 1=most important to 7=least important

Debt levels varied greatly in the range of RM7500 to RM555,000. Due to the positive skewness of the data, the median, which was RM12,750 could be a better representation of the average debt of the sample in this study. Table 2 shows the major debt composition of

the respondents, the range of total debt levels and monthly loan payments. Out of 186 respondents, 166 received education loans with the total amount in the range of RM3,000 to RM100,000. For respondents who took car loans, the total amount was in the range of RM6,000 to RM120,000 with the instalment of between RM170 to RM1,250 per month. Among those who had housing loans, the total amount was in the range of RM40,000 to RM300,000 with the monthly instalment of between RM220 to RM2,000. Personal loan was between RM10,000 to RM100,000. Lastly, the monthly allocation for credit card payments was in the range of RM100 to RM1,000.

Table 2: Borrower Debt Levels and Monthly Payments

<i>Type of Loan</i>	<i>Total amount (RM)</i>	<i>Monthly payment (RM)</i>
Education Loan Debt	3,000-100,000	50-300
Car Loan	6,000-120,000	170-1250
Housing Loan	40,000-300,000	220-2,000
Personal Loan	5,000-100,000	100-850
Credit card		100-1,000

The relationship between total debt levels and demographic factors were investigated using Pearson product-moment coefficient. Overall, total debt levels were found to be significantly correlated at the 0.01 level with age, marital status, income, level of education completed, and duration of time after graduation. The total debt amount was also found to be higher among the respondents in the age group of 41 years and above, the divorced, those working in the public sector, working full time, and graduated from public universities. However, the interaction effects were not statistically significant except for age, between the 26-30 and 31-35 age groups ( $F = 2.656$ ,  $p = 0.038$ ).

### 3.3 Education Loan Debt

Education debt levels differ considerably depending on the type of institution attended. Those who attended private colleges and universities borrowed the most with the average of RM53,750 and RM31,324 respectively. At public universities, the average debt was RM23,735; about the same as the overall median. Table 3 shows the minimum, maximum, and average debt levels for education loan debt. On average, a graduate accumulated RM23,000 (the median value) in education loan debt.

From 166 respondents who received education loans, only 135 (81.3 percent) reported to be paying the debt. As shown in Table 4, most respondents allocated between RM100 to RM300 a month as payment for the education loan debt. Computing the education debt-to-income ratio, majority of borrowers (54 percent) had below 4 percent ratio. However, 17 percent of the borrowers had higher than 8 percent ratio, which is deemed

unsafe by previous researches (Greiner, 1996; Scherschel, 1998).

Table 3: Education Loan Debt By Type of Institution

Education Loan Debt	Overall Mean: RM 36,864 Overall Median: RM 23,000		
<i>Debt By Type of Institution</i>	<i>Min (RM)</i>	<i>Max (RM)</i>	<i>Mean (RM)</i>
Public university	10,000	80,000	23,735
Private university	7,500	100,000	31,324
Public college	9,000	70,000	27,000
Private college	20,000	80,000	53,750

The remaining 31 respondents who had not been paying the education loan debt cited insufficient income as the main reason (41 percent) followed by not being contacted by the loan provider (24 percent), inconvenient process (6 percent) and not working yet (12 percent). A quite troubling finding was the presence of unethical behavior in a fraction of borrowers who simply refused to pay (12 percent) and a lacksadaical attitude towards education loan repayment (6 percent).

Table 4: Education Debt-to-Income Ratio

<i>Monthly instalment (RM)</i>	<i>% of respondents</i>	<i>Education debt-to-income ratio</i>	<i>% of respondents</i>
<100	31.4%	< 2%	16
100-200	49%	2% - 4%	38
201-300	19.6%	5% - 8%	29
		>8%	17

### 3.4 Attitude Towards Education Loan Debt

The attitude towards education loan scale ranged between 1 and 4.75, with a mean of 3.13 and a standard deviation of 0.87. The scale achieves internal consistency with a Cronbach alpha coefficient of 0.762. Attitude was found to have significant positive correlation with the loan repayment behavior at the 0.05 level (Pearson correlation);  $p = 0.032$ . Negative attitude, associated with higher mean value in the scale, was found to be higher among respondents in the 26-30 age group, had graduated in less than a year when participated in the survey, those earning less than RM2000 per month, graduated from public college, and working in the public sector. However, the group differences were not statistically significant except for

the level of education completed between the diploma and master levels, and between the first degree and master levels.

In the survey, respondents were also asked of a variety of questions to determine how they felt about their education loans. As shown in Table 5, 24 percent of the respondents reported feeling burdened by their loans and 53 percent faced difficulties in paying the education loan debts. However, only 5 percent expressed disagreement that the benefits of higher education were worth the burden of borrowing.

Table 5: Attitude Towards Education Debt Burden

<i>To what extent do you feel burdened by your education loan payment?.</i>	
Not burdened	28%
Neutral	48%
Burdened	24%
<i>I have little or no difficulty in my education loan payment.</i>	
Agree	38%
Neutral	9%
Disagree	53%
<i>Making loan payment is unpleasant but I know the benefits of higher education loans are worth it.</i>	
Agree	60%
Neutral	35%
Disagree	5%

#### 4.0 Conclusion

The combination of rising costs of higher education and difficult economic times would make loans a more prominent feature of financial aid in the future. After graduation, students accumulated not only education loan debt but other debts as well, such as the credit cards, housing/mortgage loan, and hire purchase like cars. However the repayment of education loan seemed not a priority for most of borrowers, where in this study, the education loan was ranked fifth after living expenses, payment on car loan, savings and contribution to parents. This might explain the low collection rate by the PTPTN. A systematic evaluation of the loan scheme in terms of loan screening and design/structure by loan providers to examine related issues such as the size of loans, eligibility criteria and repayment terms for every application is thus suggested.

A clear analysis of manageable debt levels would also facilitate in evaluating the impact of this increasing reliance on loans, especially on positive attitude on the role of education loans, concern over excessive debt may prevent students from making educational choices they would actually prefer in the absence of financial barriers.

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