

An analysis of students' knowledge on PTPTN loan obligation: UiTM Pahang student's perspective

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Abstract: Report from local newspaper shows PTPTN has disbursed RM 50.9 billion of money up to August 2013 for the purpose of student loan. Non-repayment of the loan among university students after they have graduated becomes a major problem to the government since the total amount of loan available to the students is depended on the loan repayment. The objective of this research is to know the level of knowledge among UiTM Jengka's student toward financial obligation/literacy on National Higher Education Fund (PTPTN). This research conducted by way of quantitative research method and the data were collected using questionnaire passed to 60 students of UiTM Jengka. The finding revealed that students lack of knowledge/literacy about certain aspect of PTPTN loan and it is highly recommended to the UiTM management to conduct a session explain about PTPTN loan information to students.

Keywords: Financial Literacy, Students, PTPTN loan

1. Background of study

Going to university is a dreaming of every student. However, one of challenges when studying at university is spending huge amount of money during the study period. It is not a big question for students who come from a background of high-income families, but it is a big issues for student that came from poor background. Consequently, the number of students requiring financial aid has increased. Coinciding with the rising cost of attending college is the rising amount of student loan debt among college students. In fact, by 2010, the amount of student loan debt was greater than the amount of credit card debt in the United States (Levin, 2011). Since education is one of the country's development agenda, the government does a variety of ways to help students continue their education at the university level either by providing scholarships or educational loans.

To address this concern, Malaysia had taken steps by introducing National Higher Education Fund (PTPTN) as the main financial institutional support to lessen the student financial burden in higher learning institution. PTPTN Education Financing Scheme was established on July 1st, 1997 for the purpose of providing education financing to students pursuing studies in local institutions of higher education. This education financing will enable students to finance fully or partially the course fees and their cost of living for the duration of their study. PTPTN education financing facility is offered to students pursuing their studies at public (IPTA) and private (IPTS) institutions of higher education locally. This is in accordance with Section 2 of the PTPTN Act 1997 (Act 566) for institutions of higher education established under the Universities and University Colleges Act 1971, Universiti Teknologi MARA Act 1976, Private Higher Educational Institutions Act 1996, Polytechnics established and maintained by the Minister under the Education Act 1996; and any other higher educational institutions established or deemed to have been established under the Education Act 1996 and which is determined by the Minister to be a higher educational institutions.

It is expected that the students know the implications of the loan and the responsibilities to repay the loan after they graduate. Under the Act, it was stated that it is a duty of a loan recipient to repay his/her educational loan to the Corporation not later than 6 months from the date he/she completed or ceased to pursue the course of study. However, the students could apply for the postponement of repayment if they were jobless and could get repayment exemption if they get a first class degree (which is equivalent to Cumulative Grade Point Average of 3.5 and above or any CGPA as specified by *Senat*). The Act also specifies the borrower's responsibility to ensure the loan is fully repaid. PTPTN also take some actions to avoid problems in the repayment of the loan. For example, students loan will be withheld if a student fails to get a pointer at least CGPA 2.0 in his/her examination and the loan will be terminated if the student fails to finish his/her studies.

Since its inception, PTPTN has benefited 1.24 billion students at all levels whether in public or private universities. Despite the fact that the loan provides financial support to students, the students simply take the loan agreement for granted. In November 2013, Education Minister Tan Sri Muhyiddin Yassin said a total of 412,245 borrowers did not service their PTPTN loans. Malays formed the largest number of defaulters at 328,550, followed by the Chinese (55,445) and Indians (28,250). According to PTPTN chairman, Datuk Shamsul Anuar Nasarah, these payment failures are serious as they make up 19 per cent of the total PTPTN borrowers, so the fund is losing RM1.3 billion for future loans. This problem may force National Higher Education Fund Corporation (PTPTN) to cut the disbursement of loans to over 50,000 new students at local universities next year.

It is important for policy makers and universities to understand the level of student knowledge towards PTPTN loan in order to identify the cause of this default. This is because a good knowledge about the PTPTN loan especially on the part of the agreements' content will help the student in creating their awareness to pay after graduated. The result of this study will help the university increases the students' knowledge about PTPTN loan agreements. It will benefits not only the government but the students as well because they can plan their finances well even before graduation so that they will know their responsibilities and not be burdened by legal suits after they graduate.

The remainder of the paper is organized as follows. The next section reviews related literatures on financial literacy and knowledge. The third section outlines the components of the research methodology. The fourth section reports the results obtained from analyzing the data using different statistical techniques. The final section discusses the results, their implications, and possible future research.

2. Literature review

2.1 Literacy

The roots of the concept of literacy refer to the human ability to read. Remund (2010) indicated that the concept is basically related to knowledge and skills necessary to meet the demands of living in a democratic society. Thus, literacy comes in many forms such as political, environmental, cultural, and financial. On the financial side, Remund (2010) indicated that the literature on financial literacy since 2000 has focused on five domains.

These domains are knowledge and financial concepts, ability to communicate about financial concepts, aptitude in managing personal finances, skill in making appropriate financial decisions, and confidence in planning effectively for future financial needs. In this study, the fifth domain is used to measure financial literacy among PTPTN borrowers. Furthermore, the concept of literacy has been extended to study different sets of skills in different fields such as computer literacy (Wecker et al., 2007), statistical literacy (Callingham and Watson, 2005), and health literacy (Baker, 2006). Each of these studies measured how well an individual understands and uses information in a particular field.

2.2 Student knowledge

Educational loan had been the main source of finance among college students and slightly more than half of the students surveyed in a study indicated that educational loan enabled them to enjoy better life (Hira et al., 2000). Students in the same study, however, were unable to estimate total debt, had some concern about repaying their debt they owned and they perceived that the size of the loan influences when students married, had children and purchase new car. Several studies in the U.S. have revealed that students lack of knowledge about certain aspect of student loan borrowing (Hira et al., 2000).

Little empirical research has been carried out in the United Kingdom on everyday experiences of debt. Findings showed that socio-demographic factors played a relatively minor role in debt repayment. (Livingstone and Lunt, 1992). Attitudinal factors that are being pro-credit rather than anti-debt were found to be important predictors of debt and debt repayments. Psychological factors, focusing on economic attributions, locus of control, coping strategies and consumer pleasure were found to be important. In the same study, the regression results showed that those who repay more are more concerned with personal achievement and self-direction. Another research of the same nature has been conducted and the results confirmed the previous findings that psychological and behavioral variables have a considerable impact on being in or keeping out of debt (Walker, 1996).

Rising student debt levels has implications for student success in college and for their post-baccalaureate decisions. Cofer and Somers (1999, 2000) found that higher student debt levels decreased enrollment at both public and private colleges. A 1997 survey of student borrowers found that 70% of Black and Asian borrowers who did not complete a degree said that the loans had prevented them from staying in school. For those who finished their degree program, 40% of students with debt delayed purchasing a home, 31% delayed purchasing a car and 22% delayed having children (Derek, 2004).

The impact of the loan to the students upon graduation is also crucial. Concern has been voiced how undergraduate debt impedes student borrowers from buying cars, buying a home, having children or moving out of their parents' home after graduating (Baum and Sounders, 1998). In 1989, Senator Pell's reflected the prevailing national policy of attempting to ensure that the financial aid college students receive does not become such a burden that it constrains their options when they graduate. However, a growing number of students are accumulating larger debts in pursuit of their bachelor's degrees and the rate of increase in loan amounts is more than three times the rate of inflation (Millett, 2003).

In Malaysia, a research conducted in University Putra of Malaysia (UPM) in 1998 revealed that high proportion of students (45%) who were enrolled in Family and Consumer Economic course stated that they have no debt upon graduation. Nevertheless, this high percentage could also be due to the fact that they did not know about the loan since educational loan has just been introduced in Malaysia at that time (Masud et al., 2004). It has been suggested in the research that there is a need to introduce financial education to college students in Malaysia. Such program will enable students to manage their financial resources efficiently. Awareness among students on the importance of financial skills and the complexity of the financial world is important to ensure money earned or borrowed is being managed efficiently for the improvement of their quality of life during college years and after graduation. However, the research did not specifically look at the knowledge of the loan recipients towards the PTPTN loan agreement and their attitudes. From the literatures that mentioned above, there are several causes of non-repayment of educational loan. Knowledge towards loan agreement and attitude towards educational loan may have a considerable impact of on student loan repayment and it will be examined in this study.

3. Research methodology

This research conducted using quantitative research method and the data were collected using questionnaire randomly passed to 60 diploma students of UiTM Jengka and analyzed using SPSS software. Descriptive statistics were carried out to meet the research objectives. The questionnaire used in this study contained demographic items such as gender, age, and year of study, among students. It also contained 7 items measuring student knowledge towards PTPTN loan agreement. The seven items were chosen to capture final domain in Remund (2010).

4. Result and discussion

A total of 60 students participated in this study and they comprised of 40% males and 60% females. The data revealed that more than half of the respondents were female (60 %) and this is also the proportion of female students in the UiTM Pahang. Almost 67 % of the students came from rural areas and majority of them are pursuing their diploma in their third year of their academic program (70%). Sixty seven percent of the students aged 20 years while 31% were 19 years old. Since majority of them were still young, 96.7% of the respondents in this study were single.

4.1 Student knowledge towards loan agreement

Table 1 shows several aspects of student knowledge towards PTPTN loan (in percentage) to be tested in student financial literacy. The respondents were asked to answer six questions representing their knowledge towards loan agreement. They were asked to indicate whether the statements provided were correct, wrong or do not know.

Table 1. Several aspects of student knowledge towards PTPTN loan agreement (in percentage)

Item	Correct (%)	Wrong (%)	Don't Know (%)
The Repayment Period is ten years	50	5	45
Repayment after six months finished study	23.3	51.7	25
Administrative cost is 1%	31.7	8.3	60
Loans will be detained if the CGPA is below 2.0	35	40	25
Have insurance protection	48	5.3	46.7
Students will be prohibited from leaving the country if not repay loans	81.7	1.7	16.7

The result of the study revealed that there were students who still did not know the basic information of the agreement. Forty five percent of the students did not know that the repayment period of loan is ten years and 5% of the students gave the wrong answers. In general, 50% of respondents failed to notice the repayment period of PTPTN loan. The unawareness among these respondents could lead to financial mismanagement in future as mentioned by Baum and Sounders (1998).

More than half of the students also gave the wrong answer about when they had to make the repayment of their loan (50.7%). This could be interpreted as most respondents have incorrect information about starting date of loan repayment. About 25% of students did not know they have to repay the loan 6 months after graduation. In general, a quarter of respondents did not really care about loan repayment schedules.

A total of 69.8% students had no knowledge that their loan's administrative cost is 1% under *Ujrah* scheme. Only 31.7% of students correctly knew the administrative cost of their loan is 1%. In general, most respondents did not know or care that they have to pay certain

amounts of money in addition to principal amount. The main concern is respondents did not know that the 1 percent administrative cost will be charged on outstanding balance of loan. Any failure to repay amount of loan or to follow the loan schedule will cause them have to pay more than what they have borrowed.

There were also several other important information that the students still did not know and give the wrong answer. About 40% of student had wrong information about agreement terms that specifies the loan will be suspended if they fail to maintain CGPA at least 2.0. About 25% of them did not know that the agreement terms specifies the loan will be suspended if they fail to maintain CGPA at least 2.0.

About 46.7% of students did not know that their PTPTN loan provides insurance coverage with Ringgit to Ringgit coverage (general *takaful*) and RM100,000.00 (trust *takaful*). However, majority of students (81.7%) aware that they will be prohibited from leaving the country if they did not repay the loan. Higher percentage on the last item could be resulted from government campaign in promoting PTPTN loan repayment.

5. Conclusion and recommendation

The purpose of this study is to examine the students' knowledge towards PTPTN loan that enabled the respondents to pursue their tertiary education. The data showed that majority of students were lack of knowledgeable about the PTPTN loan agreements though there were a small percentage of those who know basic facts about the educational loan they received. This is support to the research conducted by Hira et al (2000), which revealed that students in U.S. lack of knowledge about certain aspect of student loan

From the results of the study, something needs to be done by the university management to enhance students' knowledge in particular about the content PTPTN agreement signed. Efforts to understand the students about the content and conditions of the loan are able to raise the awareness of students to repay their loans once they graduate. Researchers propose to the university to hold a special program to provide a clear understanding to the students, especially about what to do when they start paying the loan. Additional courses such as financial planning should be improved so that students can increase their knowledge.

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