National Council of Women of New Zealand
Te Kaunihera Wahine O Aotearoa

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Submission on
Student Loan Scheme Bill

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 51 nationally organised societies and national members. NCWNZ has 23 branches throughout the country attended by representatives of those societies and some 150 other societies. The Council's function is to serve women, families and the community through research, study, discussion and action.

This submission has been compiled by the NCWNZ Economics Standing Committee, drawing on responses from individual members, branches and nationally organised member societies. We welcome the opportunity to comment on this Bill, which proposes significant changes to the student loan scheme.

General Advantages

Most respondents approved the electronic management of student loan accounts, which will give clarity and instant information to borrowers and less costly and confusing administration of the scheme. Management solely from Inland Revenue was considered sensible, rather than two or more organisations. Most younger borrowers are computer literate and would welcome an online system of handling their student loans; however, some respondents were concerned for students and borrowers who do not have access to the Internet.

Online accounting will also make it easier for borrowers who have gone overseas to manage their payments and view their progress and balances. Although many respondents assumed that overseas borrowers went out of the country to avoid paying off student debt, for many borrowers a significant barrier to payment has been the difficulty and delay of communicating with Inland Revenue.

For wage and salary earners, a pay period assessment regime seems the better way of keeping payments current, although some respondents felt the administration would be more complex and more time consuming for both borrowers and employers. Some respondents considered the more regular schedule of payments to be beneficial, as loans would be paid off in a timely fashion and therefore sooner.

Pay Period Assessment – disadvantages

Most respondents expressed concern that students and part-time and casual workers could be unfairly penalised by a pay period assessment system. Women cluster in part-time and casual work, which might pay over the weekly minimum only occasionally. They and their families could be seriously affected if they were forced to pay off a student loan in such a way, when their total annual income was under the minimum liable for repayments.

Students are restricted to working holiday and weekend periods, and may occasionally exceed the weekly minimum for repayment. Clause 48 specifies that only full-time students may apply for an exemption, penalising part-time students who are more likely to be women with families. They could be forced to borrow more if their income is insufficient for living costs during the study year. Thus rather than the intended outcome of reducing debt levels, this may actually increase the borrowing.

The Regulatory Impact Statement justifies depriving a borrower of income that would not otherwise be payable in an annual assessment, by asserting that the borrower will benefit by reducing debt and paying it off sooner. This demonstrates a callous disregard for a borrower's welfare and the welfare of his or her family. Borrowers may apply for hardship relief after the fact, but the damage to families will have been done.

One group of respondents pointed out that under pay period assessment, a borrower might unintentionally pay $500 over the liable annual amount, but would not be eligible to apply for the 10% bonus as would borrowers who intentionally paid the excess. Here again is an inequitable anomaly that penalises some borrowers, for the sake of lower administration costs.

We suggest that the pay period assessment be applied to full-time workers in employment where the remuneration is regular and stable. Borrowers who are still studying, or who are in part-time or casual employment, should have the option to continue with annual assessment. Otherwise the principle of a minimum annual income liable for repayments is seriously undermined.

Annual Administration Fee

While some respondents dismissed this fee as being too low to worry about, and also standard banking practice, most were concerned not only with what could amount to 'interest by stealth', but also that the fee is able to be increased at any time. Some felt that the impact on low and middle income earners would be detrimental, and others suggested that the fee should either be a one off, or not be charged for three or more years after establishment of the loan.

Respondents asked what the fee was to be used for, if borrowers managed their own accounts and accounts were administered electronically. Charging $40 for a loan balance as low as $20 was felt to be unethical, and indicated poor communication between IRD and the borrower.

Credit Contracts and Consumer Finance Act (CCCFA)

This is the area that concerned respondents the most. Many felt it to be very dangerous to enact legislation that contravenes an existing Act, particularly an Act that protects the rights of consumers when dealing with loans. Many respondents were concerned about student loans being enforceable to minors. Others recognised the vulnerability of students signing credit contracts perhaps for the first time, when protection of the CCCFA was the most needed.

The Commerce Commission has expressed concern that borrowers may lose confidence in credit contracts if changes are made with little consultation, and that legislation departing from the CCCFA will confuse borrowers. Most respondents agree. In the past, the Commission has agreed to departures where the borrower is significantly advantaged, as in the case of writing off interest for borrowers resident in New Zealand.

However, existing borrowers are not advantaged by paying a new administration fee, or by some being forced into a pay period assessment which could impact severely on their income. Not every borrower will be happy to have account details published online, nor will every borrower be advantaged by it. Inland Revenue has stated in its Regulatory Impact Statement that it will make every effort to communicate with borrowers, but that to get permission from every one, was too difficult. Some respondents felt this to be a human rights issue, as students will be denied the protections that others in society enjoy.

Other comments

Although this Bill was not intended as a wider review of the student loan scheme policy, some respondents felt the need to comment on that policy. Some 600,000 New Zealanders now have a student loan, and the Government has an asset of over $11 billion in student debt. These facts raise important questions.

Some respondents wonder how much the asset of $11 billion costs the taxpayer when the interest is written off, and who is really winning in the race to indebt the next generation? Several adverse social trends have been observed since the establishment of the scheme, including the influence on choice of career and the ongoing effects on family life.

It has been noted in countries where student loans are well established, that the most able students have been lured into commerce degrees and the finance industry, rather than more productive areas like science and engineering, causing serious skill deficits in these areas. A similar situation may have developed in New Zealand, where universities report a glut of law and commerce students, and struggle to attract students to the sciences, most urgently the agricultural sciences.

The ongoing skills shortage may be exacerbated by student indebtedness. Wages and salaries have not kept pace with inflation in New Zealand, and respondents reported family members going overseas for better salaries and career advancement, in order to pay off student debt sooner. Traditional ‘OE’ may be extended beyond the usual time due to indebtedness, and the skills loss is significant.

Student debt may also influence conception and childbirth choices, with an alarming growth in infertility rates as women put off starting families while they establish careers and pay off debt. The boom in the IVF industry suggests this trend is more marked than ever. IVF treatment, which is an expensive and not always reliable way to conceive a child, is unaffordable for many women.

Access to start-up finance for a small business is blocked by student debt. Similarly, the opportunity to own a home fades in the face of student debt. Home ownership, once recognised as the mainstay of family wellbeing and the cornerstone of community, is decades out of reach for many graduates, even now that house prices have decreased somewhat. The long term social impact of increasing numbers of itinerant families in rental accommodation may have many negative aspects.

One member organisation pointed out that the amount required to fully fund universities, and thereby remove fees charged to students, is equivalent to a mere week’s worth of Treasury bonds discounted to the money markets and banks – some $250 million. In addition, NCWNZ policy includes urging the government to investigate the feasibility of implementing a universal basic income, providing students with a living allowance during study periods. No-one would then need to borrow to get an education - an investment in the future, rather than a commodity that enriches only banks.

Finally, with women's income levels trailing men's by some 12%, it takes longer for women to pay off loans. For those women taking time out of the workforce to raise a family, the loan period extends even further. Although the writing off of interest helped redress the imbalance, women and their families are still unfairly affected by the student loan scheme, and they face even more disadvantage if this Bill goes through unchanged.

Conclusion

Respondents found there were serious defects in this Bill. While developing electronic management of accounts will benefit most borrowers and Inland Revenue, other changes to the student loan scheme will unfairly penalise part–time students, and workers in part-time and casual employment.

Of most concern is the setting aside of the Credit Contracts and Consumer Finance Act (CCCFA), and the protections it affords consumers. Although most changes to the loan contracts are seen as advantageous to borrowers (with significant exceptions) the departure from the protection that CCCFA affords consumers opens the door to the possibility of further changes, higher fees and less consultation with borrowers. Respondents felt this was a dangerous precedent to set, and should not be implemented as proposed.

Thank you for the opportunity to comment on this Bill.

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Economics Standing Committee