

# Knowledge, Attitude and Perceptions of University Students towards Educational Loans in Malaysia

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Published online: 14 September 2006  
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**Abstract** National Higher Education Fund Corporation (PTPTN) loan is the major source of financing tertiary education in Malaysia. 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. This study sought to examine the students' knowledge and attitude regarding the loan. Three aspects of focus are knowledge, attitude and perception of students towards the loan and the repayment of the loan. This study also analyzed the legal literacy of students towards the PTPTN agreement. A total of 1,500 students of University Putra of Malaysia participated in the study and data were collected using self-administered questionnaire. The findings revealed that students have good knowledge about PTPTN loan agreement but there were a significant proportion of students with negative attitudes towards the repayment of the loan. Majority of them perceived the loan as a burden to them and it limits many options of their life after graduation.

**Keywords** College students · Educational loan · Malaysia

## Introduction

The establishment of several new public and private universities in Malaysia created more opportunities for students to pursue higher degrees at the tertiary level. Previously, students entering local universities mainly depended on limited financial resources from government and private agencies. Those with excellent results in their pre-university public examinations were able to get scholarships from private companies. The increase in enrollment in universities, however, has resulted in a big gap between the number of students and the number of the scholarships provided.

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Meanwhile, educational loan from financial institutions incurred a high cost (more than 4% interest) in pursuing higher level of education.

To address this concern, Malaysian government has taken steps to introduce an educational loan offered under the National Higher Education Fund (NHEF or locally known as PTPTN, the Malay acronym) that can lessen the financial burden. The fund was set-up under the National Higher Education Fund Corporation Act 1997 (566 Act), which was enforced on 1st July 1997. In order to manage this fund, the National Higher Education Fund Corporation has been established. The educational loan offered under this fund has only a 4% service cost compared to the loan offered by financial institutions and has become the main source of financing in the tertiary education in Malaysia.

Despite the fact that the loan provides financial support to students, the students tended to take the loan agreement for granted. Some believe that it is fully subsidized by the government and needs not be repaid. The consequences are the students may not be prepared for repayment and do not manage their finances well. As a result, the educational loans may affect their life after graduation and constrain their options when they graduate. They may also be burdened by legal suits for not paying the educational debt.

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 educational loan to the Corporation not later than 6 months from the date he completed or ceased to pursue the course of study. For the purpose of the recovery of loan, the Inland Revenue Board was appointed to be the collection agent for and on behalf of the Board for the recovery of educational loan due for payment by the students. The educational loan, which is not repaid or in arrears shall be treated as a civil debt and the Corporation may avail itself of such means under the law for the recovery of such debt. However the students can apply for the postponement of repayment if they are jobless and can get exemption if they get a first class degree (which is equivalent to CGPA of 3.5 and above). The Act also gives the responsibility to the borrower's to ensure the loan is repaid. It shall be a duty of an employer upon being notified in writing by the Inland Revenue Board to deduct from the salary of a graduate student and remit the amount to the Inland Revenue Board on a monthly basis.

Looking at the provisions under the law, we can see that there is no way for the students to escape from this liability. In spite of this, there are high percentages of students who do not make repayment. The Corporation has a deficit of RM7 billion in 1997. The amount has been cumulatively loaned out to tertiary-level students since then. PTPTN ran out of funds in 2003 and had to borrow RM2 billion from the Employee's Provident Fund (EPF) in 2003 and another RM2 billion in 2004 to keep the tap going. In 2005, the Corporation intends to borrow another RM2 billion but this time the EPF hesitate to lend it. According to the statistics from the Corporation, out of 618,000 loan borrowers that they have sent the reminders to pay, only 25% have responded. This made PTPTN strategy of self-financing; providing loans to new students using proceeds from repaid loans unsuccessful. Unpaid loan will give bad effects to potential borrowers when the fund runs out of money. The PTPTN is now taking great efforts to go after the defaulters as a mean to replenish the fund.

To enable the effective measures to be undertaken by the policy makers, a clear understanding of the profile of the loan recipients, their knowledge, attitudes and perceptions need to be explored. This study is to present the descriptive statistics on

the knowledge, attitude and perceptions of loan recipients towards educational loans. It is hoped that the result of this study can help the government to understand the students attitude towards educational loan and develop appropriate strategies to raise legal awareness and inculcate positive attitude towards the educational loan among university students. It will benefit 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.

## Literature Review

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 & 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).

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, Anderson, & Peterson, 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, Anderson, & Peterson, 2000).

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 & Sounders, 1998). In 1989, Senator Pell 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).

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.

Millet used a longitudinal database of 1992–1993 college graduates that explicitly collected information on student borrowing. The results showed that undergraduate

debt was a significant predictor of application to post-graduate program. Students with debt ranging from \$10,000 to \$15,000 were 40% less likely to apply than were students without undergraduate debt. By using the same database, Price (2004) found out that students with high educational debt have lower average salaries than do other students. 39% of low-income borrowers responded that the loan repayment caused more hardship than anticipated. These findings can impliedly tell us that the financial instability after graduation can be the cause of non-repayment of debt. Therefore, the U.S. Department of Education and student loan analysts estimate the maximum threshold of educational debt to monthly income to be 8%. This threshold is widely used by policy analysts because students with debt burden greater than 8% are more likely to default on their loans.

To overcome the problem of non-repayment of educational loan, in U.S., a strategy was introduced, which is known as the Federal Student Loan Repayment Program. This program will permit agencies to repay Federal insured student loans as a recruitment or retention incentive for candidates or current employees of the agency. One research that was carried out by Masuo, which studied the Asian college students' money beliefs and behaviors, suggested that consumer education on how to use money wisely will increase in importance expounding the need for a better understanding of money attitudes and behaviors (Masuo, Malroux, Hanashiro, & Kim, 2004). 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, Laily, & Hira, 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 above researches that have been carried out, we can see that 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 non-repayment and will be examined in this study. The perceptions of students on how the loan will influence their life after graduation will also be looked into. This is because understanding the consequences of debt accumulation upon graduation is another important indicator for informing policymakers about changes that need to be addressed in order to lower the problem of non-repayment.

## Methodology

The data used in this paper was part of a larger study on financial behavior of students receiving study loan. The study was carried out among students studying in one of the 18 public universities in Malaysia. There were more than 18,000 loan recipients under this PTPTN fund in the University Putra of Malaysia (UPM) in the

year 2000. In 2000, the loan was disbursed to the students during 3 days fixed by the university and all loan recipients were required to collect their checks in the Great Hall of the university. The sample of the study was comprised of 10% of loan recipients in UPM and a total of 1,800 students were selected through systematic sampling. Every tenth student queuing up to collect his or her warrant during the three days of loan disbursement period was given self-administered questionnaire to be completed in the hall. The questions on knowledge, attitude regarding the study loan were developed based on the loan agreement students have to sign. A total of 1,500 completed questionnaires were returned and analyzed using SPSS. Descriptive statistics were carried out to meet the research objectives.

## Results and Discussion

A total of 1,500 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 (60.5%) and this is also the proportion of female students in the University Putra Malaysia. Almost half of the students came from rural areas (46.7%). Majority of them are pursuing their first degree in their second year of their academic program (56.5%). Thirty six percent of the students aged 20 years while 19% were 21 years old. Since majority of them were still young, 94% of the respondents in this study were single. More than half the male students had attended boarding school. On the other hand, more than half of the female students did not attend boarding school.

To grasp their life experience, the respondents were asked to indicate their place of origin and majority indicated they were originally from rural areas. More than half of the Malays (55%) and others (51%) were from rural areas while 46% Chinese and 61% Indians were from urban areas. Different background may provide different experience with finance and this may influence their attitude and knowledge regarding the study loan. 72% Malays and 70% of the Indians were staying on campus while 30% of the Chinese students participated in this study were living on campus. Respondents were also asked to indicate their academic achievement for the previous semester. In general it was observed that the Chinese reported higher CGPA compared to all other ethnic groups. More than 70% Chinese students reported CGPA above three in contrast to more than 70% Malays reported CGPA below three. With a study loan students should be able to concentrate on their study and obtain better grade. The data revealed that there were 5% respondents in this study reported CGPA of below 2.0.

### Students Knowledge towards Loan Agreement

The respondents were asked to answer nine 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 shows the percentage of respondents with wrong and don't know answers. The result of the study revealed that there were students who still did not know the basic terms of the agreement. Forty percent of the students did not know that the payment of loan is made through the Inland Revenue Board and 9.3% of the students gave the wrong answers. The

**Table 1** Percentage of respondents with ‘wrong’ and ‘don’t know answers about PTPTN loan agreement

Items	Correct (%)	Wrong (%)	Don’t know (%)
1. The repayment period is 15 years	63.1	16.4	20.5
2. The repayment is through the Inland Revenue Board	50.4	9.3	40.3
3. The loan is given throughout the year of study in university	85.4	7.9	6.7
4. The loan will be retracted on probation status	30.2	30	39.8
5. Repayment after 6 months	78.9	7.2	13.9
6. Administrative cost is 4%	81.6	2.5	15.9
7. Have insurance protection	70.1	6.2	23.7
8. Science program gets higher amount	87.9	5.1	7.0
9. Diploma RM5000 and degree RM6500	80.6	10.6	8.8

students also did not know that their loan would be retracted if they are on probation status (39.8%) and another 30% gave the wrong answers. A total of 69.8% students have no knowledge that their loan will be terminated if they did not perform academically. There were also several other important information that the students still did not know such as the period of payment is for 15 years (36.8%) and the loan has insurance protection (29.9%).

In general, students’ knowledge about the loan may differ depending on how long they have been receiving the loan. The finding in this study shows that more than two-thirds of the respondents (first year and seniors) did not know that the loan would be retracted if they were on probation status. Though this clause is stated in the agreement they signed, majority of them did not know about this clause. The second highest wrong or don’t know answers was regarding the repayment through the Inland Revenue Board.

Understanding of the profile of those with knowledge regarding the study loan can be useful in identifying strategies to address the loan defaulters. The PTPTN knowledge score was computed by counting the number of correct answers given by the respondents. The maximum score was nine and the mean score for the first year respondents was 5.7 compared to 6.4 among seniors. Those in the first year can be expected to have less knowledge compared to those in senior years. Table 2 shows the mean knowledge score by selected students’ background. The mean knowledge score by ethnic group, year of study and place of origin were significantly different. The Chinese students tended to have higher mean knowledge score compared to other ethnic groups. On the other hand, those with higher CGPA tended to have more knowledge about the study loan compared to those with lower CGPA.

### Attitude of Students towards PTPTN Loan Agreement

Respondents were also asked to indicate their attitude towards PTPTN loan. There were 11 items whereby 5 items to measure the respondents’ attitude towards the loan and another 6 items will indicate the respondents’ attitude towards repayment of such loan. Respondents indicated their answers on the scale of 1, which is ‘totally disagree’ to 4, which is ‘totally agree’. Table 3 shows the percentage of responses for each statement. Statements one to five were items to measure attitude towards the

**Table 2** Mean knowledge score by selected respondents' background

Background	Mean	<i>n</i>	
Sex	Male	6.11	592
	Female	6.25	907
CGPA	<2	5.90	73
	2–2.49	6.20	370
	2.5–2.99	6.22	536
	3–3.74	6.21	423
	3.75–4	6.59	51
Ethnic*	Malay	6.14	1070
	Chinese	6.49	267
	Indian	5.94	90
	Others	6.32	57
Place of origin*	Village	6.36	698
	Small town	6.02	309
	City	6.07	484
Semester**	First year	5.73	447
	Senior years	6.42	1027

\*ANOVA, significant at  $P = 0.05$

\*\*ANOVA, significant at  $P = 0.01$

**Table 3** Attitude of students towards PTPTN loan and loan repayment

Items	Strongly disagree	Disagree	Agree	Strongly agree
1. The loan is an investment	5.5	31.3	47.7	14.9
2. The loan is government fund	16	44.7	21.1	17.3
3. The loan enable me to enjoy better life	5	26.6	56.5	11.3
4. The loan will enable me to go to the university	1.1	3.9	54.4	39.9
5. The loan enabled me to concentrate on my study.	1.6	8.2	60.4	29.1
6. Not easy to repay the loan.	10.5	38.3	45.3	4.7
7. The repayment can help other students.	2.1	9.3	60.9	26.9
8. Repayment is my obligation	1.3	4	60.1	33.7
9. PTPTN can trace me to collect the loan	2.3	7.5	64.6	24.8
10. There are legal penalties for non-repayment	6.5	17.1	54.3	21.4
11. I have to put an effort to make repayment	2.1	7	61.2	28.9

loan and statement six to eleven measure respondents' attitude towards repayment of loan.

Table 3 clearly indicated that majority of the students agreed with the statement regarding the loan except for statement on the loan is government fund. Since they have to pay back the loan, the students probably had the idea that the study loan is made available by other source. More than 60% respondents disagree that the loan is government fund. There were also students who disagreed that the loan is an investment. Such attitude may have implication on their study as well as in loan repayment.

Statements six to eleven reflected the respondent attitude towards loan repayment. There were 51% respondents who agreed with statement 'not easy to repay the loan'. This may be reflection on the perceived problems they would be facing in repaying the loan. Almost one quarter of the students believed that there were no legal penalties for non-repayment, 9.8% believed that PTPTN cannot trace them to collect the loan and 48.8% felt that it was difficult for them to make repayment.

The attitude of the first year and senior students were also explored. The data showed that there is no difference in the attitude towards the loan and the repayment of the loan between these two groups. More than two-thirds of the respondents agreed that the study loan is an investment and the loan enabled them to live better life. Almost all respondents agreed that the loan enabled them to continue their study. The loan money also enabled the respondents to concentrate on their study. Though the respondents had positive attitude towards the loan, their responses to statements on the loan repayment were rather negative. Higher percentage of first year students tended to have negative attitude towards loan repayment compared to the seniors. Such negative attitude can be expected to influence their repayment behavior after graduation.

### Perceptions of Students on How The PTPTN Loan Affects Their Life After Graduation

The students were asked on their perceptions on whether PTPTN will affect their life after graduation. This information may provide some explanation on the potential causes of not repaying the loan as they may have other priorities in life. Table 4 provides the findings.

The results showed that the loan affects the selected aspects of their life. Three quarter of the students claimed that the loan would affect their job options after graduation. With a study loan to pay back, respondents may have to look for a high pay job to support their living. Almost 70% respondents claimed that loan repayment would delay them from buying cars, 43.6% claimed it would delay them from getting married and 36.1% claimed it would delay them from having babies. Since getting married in Malaysia is still embedded with cultural practices, it can be very costly especially for the bridegroom to be. Half of male respondents compared to only 39% female indicated that loan repayment would delay them from getting married. Having loan to pay back may have an impact on the respondents' ability to save for their marriage. This will definitely influence when they will start having children.

### Conclusion and Policy Implications

The purpose of this study is to examine the knowledge, attitude towards PTPTN loan and the perceptions of the students on how the loan will affect their life after graduation. The loan enabled the respondents to pursue their tertiary education. The data showed that majority of students were knowledgeable about the PTPTN loan agreement though there were a small percentage of those who did not know basic

**Table 4** Perceptions of students on whether the PTPTN loan affects their life after graduation

Items	Yes (%)	No
1. Decision on when to have the first child	36.1	63.9
2. Decision to get married	43.6	56.4
3. Selection of place to stay	64.3	35.7
4. Buying the first car	68.7	31.3
5. Job option after graduation	75	24.9



facts about the study loan they received. This is contrary to the research conducted by Hira, which revealed that students in U.S. lack of knowledge about certain aspect of student loan borrowing (Hira, Anderson, & Peterson, 2000). The seniors tended to have better knowledge compared to the first year students. In regards to the attitude of the students, the data showed that the students have negative attitudes on certain matters regarding the educational loan. Those with better knowledge were also the respondents with positive attitudes towards the loan. Besides, many of them believed that the loan played as important factor that will affect their life after graduation.

Overall, the respondents had knowledge towards loan agreement but majority of them had negative attitudes towards the loan and the repayment of such loan. They also perceived the loan as a burden and would limit their options of life after they graduate. Their negative attitudes and perceptions may influence the repayment of the loan once they graduated. This finding is in line with the previous research by Livingstone that attitudinal factors were found to be important predictors of debt repayments (Livingstone & Lunt, 1992).

To lessen up the problems of non-repayment of PTPTN in the future, the attitude of the loan recipients is a significant factor that needs to be addressed compared to their knowledge. This finding can be useful to the management of PTPTN (Corporation) and policy makers. The Corporation has to work together with the universities to conduct programs to instill positive attitude towards the loan among the students. They should inculcate the values among students that the repayment of educational loan is their responsibility and their repayment will contribute to maintain the fund needed to help other poor students to pursue their studies.

In view of the negative perceptions towards the loan among the students, policymakers should make some adjustments so that the students may not feel that the repayment is a burden to them. The existing regulation that the loan has to be repaid 6 months after they graduated should be changed. Since their finances are not strong, and they had many other priorities in life such as buying car, getting married and moving from parents' house, they should be allowed to start paying back their loan when they are financially secured and ready. Once their financial situations were more stabled, they may be voluntarily willing to repay the loan. The amount of the loan approved may also be reviewed so that the students are given only the amount that they need. With a smaller amount of loan, the burden of repaying will be less. The findings in this study did provide general picture of students' knowledge and attitudes towards PTPTN. The findings can be used to better understand the problem of non-repayment of educational loan among university students. Further research is needed to have in-depth understanding of the students values towards money and loan/credit so that appropriate financial education approach and programs can be developed to prepare the university students to manage their financial matters when they started earning money. In addition, the study on the graduated students to identify contributing factors that influence their loan repayment behavior is also important.

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