Policy Dilemma of Government-Subsidized Student Loans (GSSLs) Program in China

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1. Introduction

Since Reforms and Opening up, in order to meet the demand for human resources from a rapidly growing economy, higher education in China has witnessed a tenacious development. By the end of 1998, the

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number of enrolled students in regular higher education institutions (RHEIs) was 3,409,000 (NBSC 2011), and the gross enrollment ratio was only 9.8% (Guo and Zhang 2007). By the end of 2010, however, the number of enrolled students reached 22,318,000 (NBSC 2011) marking a growth in gross enrollment ratio at 26.5% (MOE 2011a). Accompanying the enrollment expansion, RHEIs had to cope with financial austerity. Thus, since 1997, every student has been required to pay tuitions to attend RHEIs, and increment in tuitions was supposed to be a way to relieve pressures on government budgets. However, high tuitions create a sort of barriers to those poor students who have obtained university admissions. Therefore, the issue concerning how students from low income families can complete their higher education, despite high tuitions, has attracted more attention than ever before.

Government-Subsidized Student Loans (GSSLs) Program was created in 1999 to enable students from low income families to both pay tuitions and delay repayments after graduation. By the end of 2011, the number of GSSLs recipients was 7.7 million, and the amount of GSSLs released was 68.074 billion RMB ($10.79 billion) (MOE 2010; MOE 2011b; MOE 2012; China Youth 2009). These figures appeared to provide evidence for positive performance of GSSLs program.

Despite its rapid expansion, the GSSLs program encounters serious problems which fall into two main categories. First, the amount of released loans cannot meet the demands from poor students. It was reported that the ratio of students from low income families to students not from low income families who were enrolled in RHEIs was 5% in 1995 but up to 23.06% in 2009 (MOE 2010). In 2009, there were 5.27

million students from low income families enrolled in RHEIs (MOE 2010). Among them, 3.56 million poor students (67.55% of all poor students) did not get GSSLs support (CNCSAA 2010). Obviously, there was a big gap between the supplies and demands of GSSLs.

Another serious problem of the GSSLs program lies in high default rates in repayment. In the first half year of 2004, the national average default rate of GSSLs was as high as 20%. In such cities as Beijing and Shanghai, where universities and colleges are concentrated, the default rates amounted from 40% to 50% (Xie 2011). Such high default rates did not only discourage banks from releasing GSSLs but also badly damaged the image of RHEIs (Wang and Huang 2011). In 2004, lots of banks stopped releasing GSSLs because of high default rates (Liu 2004). Even after policy adjustments, the national average default rate of GSSLs in 2010 was 20% (Zhao 2010). Due to the high default rates, banks began to fear, refuse and even stop releasing GSSLs, which turned on a 'red light' for GSSLs program. GSSLs have now become a "hot potato" to both banks and RHEIs.

The purpose of this paper is to investigate how and why such great student loans program, GSSLs program in China, could get into the policy dilemma of students not being able to, or not willing to repay loans and, consequently, banks not willing to release loans. Firstly, this article presents government participation and cons-sharing in higher education. Then, it accesses to GSSLs program in China and examines the effects of policy changes on students, banks and governments. After discussing issues existing in both GSSLs and SHGSSLs programs, it provides some possible policy implications to solve the current problems with the program. The last section concludes with some questions for policy makers.

2. Government participation and cost-sharing in higher education

Higher education, seen as an investment in human capital, is a way for individuals to learn knowledge and skills which lead to a return for both the individuals themselves and society. Even though studying in higher education institutions has such direct costs as tuitions, living expenses, and the incomes of forgone work opportunities, those with higher education are more likely to get a job with higher salaries than those with less education (Becker 1975). Students are the direct beneficiaries of higher earnings, greater social status, and personal satisfaction from the education. Additionally, children's success in the educational system provides parents with a great sense of satisfaction. Therefore, a part of the burden of cost of higher education should be shifted from government/taxpayers to students and/or parents in the form of tuitions and fees (Johnstone 2003).

Another reason for cost-sharing in both developing and transitional countries may lie more in the "sheer need for alternative nongovernmental revenue" rather than efficiency and equity (Johnstone 2004a). The increase of tuitions and fees is necessary to help higher educational institutes to recover its operation costs and to relieve financial burdens of the governments.

Higher education can bring social and economic spillovers. An increase in employees with college degrees or above can lead to local economic growth. In fact, a one percent increase in the population of employees with a college education can cause an increase of one and a half percent of local economic growth over a 10-year period (Glaeser and Saize 2003). Moreover, welfare can be improved by subsidizing education (Trostel 1996). Such spillovers are the justifications for governments to provide subsidies to education. Banks instead of governments provide the capital for student loan programs; and in return, governments should be required to provide guarantees against default as well as interest subsidies in order to encourage banks' releasing loans (Shen and Ziderman 2008).

Human capital market is quite different from physical capital market. It is legally limited to transfer human capital rights, so students are constrained from borrowing student loans to support their study on the basis of their future incomes after graduation. Unlike mortgage loans, the potential productivity of students cannot be treated as properties to be transferred or sold in order to recover student loans. Even after graduation, students are not guaranteed with careers which can best reflect their skills and abilities acquired from their study. The risk and uncertainty of investment in human capital (Friedman 1955; Johnstone 2004b; Palacios 2004) result in the imperfection of human capital market. The risky aspects of human capital investments lies in the ambiguity of the future that students are not sure about graduation, success in the area of their study, and the future value of investments. The uncertainty aspects of human capital investments are that, on the one hand, students' future incomes may not be as high as expected; on the other hand, banks cannot sell or transfer students to others when they are unable to repay loans (Chapman and Lounkaew 2010). The labor market may signal that prospective but poor students are relative risky and uncertain, and this will results in banks' reluctance to release loans to those students without guarantors. The legal limitation to transfer or sell human capital rights can result in the difficulties in financing higher education, though higher education has high profitability, which is kind of a market failure in student loans market. Therefore, there is a need for government participation to ensure the operation of student loans to finance higher education.

The government participation in order to ensure general availability of student loans are shown in four terms of "bearing all or at least a significant part of risk, subsidizing the rate of interest, or the cost of lending paid by the student borrower, absorbing some of the costs of administering the loan program, and employing for student loan collection the potentially powerful machinery of the governmental tax and/or pension collection systems" (Johnstone 2002).

3. The Government-Subsidized Student Loans (GSSLs) Program before 2007

In order to relieve the budget pressure of governments and help poor students to finance their higher education, GSSLs program was introduced in 1999. On June 17, 1999, the Regulation on GSSLs Administration (Guoban Fa [1999] No. 58) was released in order to provide financial support to every poor student to get access to higher education. The GSSLs initiation was a pilot program in eight cities of Beijing, Shanghai, Tianjin, Chongqing, Wuhan, Shenyang, Xi'an and Nanjing. The Industrial and Commercial Bank of China Limited (ICBC) was granted to take the GSSLs business and the target group was full-time students in RHEIs and junior colleges. A guarantor was needed and the interest rate was 50% subsidized by governments. The repayment term was 4 years effective upon graduation, and students were required to pay extra interests for defaulted loans. Based on the results from the eight pilot cities, the Regulation on Student Loan Administration (Guoban Fa 〔2000〕 No.6) was released on February 1, 2000, which allowed students to apply for GSSLs only with their individual credits as loan guarantee, and if they fail to repay their loans, actions were to be taken that their identities such as names, ID number, and defaulting facts were to be published to the public.

On August 26, 2000, under the Supplemental Regulation on Student Loan Administration (Guoban Fa 〔2000〕 No. 27), the GSSLs program was expended nationwide. All the four state-owned commercial banks including ICBC, Agricultural Bank of China (ABC), Bank of China (BC) and China Construction Bank (CCB) were involved in this program, and the target group was also expanded to include both full-time undergraduates and postgraduates in RHEIs and junior colleges. The dead debt of default loans can be annulled after verification. This program was officially put in place in all RHEIs. However, till the end of May 2001, while the number of applicants was at a staggering 534,000, amounting to a total amount of 3.34 billion RMB ($530 million), but the approved number was limited to only

170,000 to an approved amount of only 1.26 billion RMB ($200 million) (Liu et al. 2009). In order to provide more incentives for banks, banks were to be exempted from business taxes on GSSLs business (Yinfa 〔2001〕 No. 245).

On February 7, 2002, the Regulation on Improving GSSLs Program (Yinfa 〔2002〕 No.38) stated the rule of four-fixations and three-evaluations. The four-fixations were: target institutions were determined by provincial level education divisions; the scope was to finance students' tuitions, accommodation fees and living expenses; the number of total beneficiaries had to be less than 20% of the total full-time undergraduates and postgraduates in RHEIs and junior colleges, and the maximum of loan was not more than 6000 RMB ($951.29) per year; every institution had to find a leading bank. The three-evaluations were: the People's Bank of China and education administrative divisions were to evaluate monthly the number of the applied, approved and released GSSLs applicants and the amount of the applied, approved and released GSSLs. Moreover, on May 31, 2002, the Regulation on Higher Education Institutions' Coordination with Banks to Carry out GSSLs Program (Jiaocai 〔2002〕 No.2) pronounced that the GSSLs Student Information System would be put into operation in September 2002 to help collect students' information. By the end of June 2002, the number of approved students was 351,000, and the amount of approved GSSLs was 3 billion RMB ($476 million) (Mu 2011).

By second half of 2003, the first repayment period of GSSLs in the eight pilot cities came, and it turned out that the default rate of GSSLs was much higher than expected, from 20% to 50% (Liu 2004).

According to the Regulation on 2003 GSSLs Plans (Yinfa [2003] No.153) on August 8, 2003, if the default rate was more than 20%[1] and the number of defaulted students was more than 20 in one university, banks had the right to put a halt to GSSLs business with that university. As a consequence, about 100 banks stopped releasing loans and more than 100 RHEIs were black listed (Sun and Zhuang 2007). The suddenness of these events caused hot debates amongst the public whether the GSSLs program was heading for an inevitable discontinuation.

Default rate=the number of students who fail to repay loans more than 90 days/total number of students who are in the repayment period.

On June 12, 2004, in order to resume the program, several modifications to lower the risks were made after the field investigations in Hunan and Hubei provinces under the Regulation on Improving Government-Subsidized Student Loan Program (Guoban Fa [2004] No. 51). The way to subsidize interests was changed to being fully subsidized by governments during study period and no subsidies after graduation. The repayment term was extended to six years after graduation with one-two year grace period. Through bidding, China National Center for Student Assistance Administration (CNCSAA) and its divisions at provincial levels determined qualified banks to lend GSSLs. More importantly, on the basis of risk-sharing, GSSLs risk compensation funds (RCFs) were introduced into GSSLs program, which required governments and RHEIs to pay 50% respectively. The

1) Default rate=the number of students who fail to repay loans more than 90 days/total number of students who are in the repayment period.

amount of GSSLs RCFs was based in a certain percentage from the annual amount of GSSLs determined when bidding, and was run by CNCSAA and its divisions.

However, even though big adjustments were made to resume GSSLs program, as a whole, the program was still far from what was originally expected. In 2005, seven provinces failed to make any progress compared to 2004, and two provinces did not release GSSLs at all (Sina News 2005). Till 2006, the amount of total GSSLs released was 25.3 billion RMB ($4 billion) and the number of approved students was 2.92 million (Cheng and Zhu 2007). Based on the number of poor students in RHEIs, it was supposed to release GSSLs of 16 billion RMB ($2.53 billion) annually (Sina News 2005). But the real amount was only 22.59% of the expected amount. Moreover, the default rate was still 20% on average (Cheng and Zhu 2007). Therefore, it was common to see that banks were not willing to take GSSLs business.

4. The new added Student-Hometown Government-Subsidized Student Loans (SHGSSLs) Program since 2007

In the fall semester in 2007, the default rate was so high that both banks and RHEIs started to feel the heat about the future of GSSLs program. According to Mu (2011), in 2007, 68 students were summoned by Shanghai Branch of ABC against default loans, and information of more than 700 defaulted students was published to the public by the ICBC Beijing; the default rate of GSSLs in ICBC Nanning was as high as 50%.

In order to push the implementation of GSSLs program, the Regulation on Financial Support System for Poor Students in RHEIs, Higher and Secondary Vocation Colleges (Guoban Fa 〔2007〕 No. 13) proposed to develop SHGSSLs program to complement GSSLs program. On August 10, 2007, the Emergent Regulation on Setting up CNCSAA at County Level (Jiaocai 〔2007〕 No.14) was introduced in preparation for SHGSSLs program. On August 13, 2007, the Regulation on SHGSSLs Pilots (Jiaocai 〔2007〕 No. 135) experimented this new program in four provinces of Jiangsu, Hubei, Shanxi and Gansu and one municipality of Chongqi. China Development Bank (CDB) was the leading bank to operate SHGSSLs coordinating with local financial institutions. Poor students and their parents or other legal guardians could apply for SHGSSLs with their individual credits at their hometown before they registered for universities. The maximum amount was 6000 RMB ($951.29) too, but the repayment period was changed to maximum 14 years including the study period. If students were to continue their education, the repayment period was to be deduced accordingly. Governments were required to pay the interests of SHGSSLs when students were in study period and students and their parents had to pay interests after graduation. CNCSAA and its divisions are responsible for administering RCFs, the amount of which was based on the 15% of the annual amount of SHGSSLs. The Central Financial Department provided RCFs for central RHEIs, and Central and local Financial Departments provided RCFs for local RHEIs together. For RHEIs in central region (8 provinces) and western region

(12 provinces and 1 municipalities), the Central and local Financial Departments took 50% of RCFs each; for RHEIs in eastern region (8 provinces and 3 municipalities), the ratio of the Central to the local was determined according to the Regulation on Scholarship and Allowance, which took into account local financial capacities, enrolled students in RHEIs etc. This new program was embraced by a lot of poor students. Only in 2011, 902,000 poor students were approved to obtain SHGSSLs, which was 76.5% of the total approved loan recipients, and the approved amount was 9.89 billion RMB ($1.568 million), which was 74.5% of the total approved GSSLs (China News 2012).

5. The operation of GSSLs and SHGSSLs programs

Both GSSLs and SHGSSLs systems involve five core elements-students, governments, RHEIs, banks and CNCSAA (See Table 1).

Application procedure: student can apply for GSSLs to RHEIs, and for SHGSSLs to CNCSAAs and its divisions, by providing proofs of their economic status and the admission letter to a RHEI. RHEIs or CNCSAAs will first examine the qualifications of students, followed by reports to the qualified students and the applied amount to banks. After the examination, the approved students will go to banks to sign legal contracts. Then, students will obtain the approved loans for tuitions and accommodation fees annually and living expenses monthly (with exception of February and August).

Repayment procedure: before graduation, students are required to sign repayment contracts with banks to choose either to repay loans outright or to start repaying loans from any month within 24 months after graduation. For GSSLs, there are two repayment plans: one is equal amount of installments, and the other one is equal amount of principals. Students must repay within 6 years after graduation inclusive of grace period. For SHGSSLs, the principals and interests must be paid annually according to repayment contacts within 14 years including study period and grace period.

Risk prevention mechanism: for GSSLs, RHEIs and governments both bear 50% of RCFs, which is under the management of CNCSAAs and its divisions. The ratio of RCFs to the annual amount of GSSLs is determined when banks bid for GSSL business. When default loans occur, CNCSAAs and its divisions repay banks the default loans with RCFs. If the amount of RCFs is more than the amount of default loans, RHEIs and governments can be awarded with the left part of RCFs; if not, they will have to burden more. For SHGSSLs, governments bear the entire RCFs, and the ratio of RCFs to the annual amount of GSSLs is 15%, and governments carry all the burdens. The left part of RCFs after repaying the default loans will be rewarded to CNCSAAs, and banks and governments have to burden 50% of the lack part respectively.

6. Effects of policy changes on students, banks and governments in China

Throughout 12 years in China, with the goal of "Let every poor student realize his dream of studying in university", this policy had been welcomed because it makes higher education more accessible to those poor students who need financial support. It is encouraging to see that, in 2011, as many as 2.425 million poor students received 13.65 billion RMB ($2.16 million) GSSLs or SHGSSLs (MOE 2012).

However, as adjustments are made to implement the operation of GSSLs and SHGSSLs in China, it is necessary to check what effects policy changes have on students, banks and governments, which may enlighten policy makers to improve related policies.

For students

It is worthy to mention the modification in Guofa Ban 〔2000〕 No. 6, which allowed students to apply for GSSLs with their individual credits, as the first big step. Students from low incomes families find it difficult to offer guarantee or to find a guarantor, as it is hard to tell whether those poor students can succeed to graduate or earn enough to repay the loans after graduation. GSSLs made it possible for these students to gain access to financial credibility without the need for guarantee or guarantor. Moreover, since 2007, in order to facilitate the implementation of GSSLs and SHGSSLs programs, 'Green Channels' have been created to give priority for these students to register first by checking their economic status, and then apply for GSSLs or SHGSSLs, scholarships, allowance etc. to pay tuitions and living expenses (Jiaocai [2007] No. 9). In second half year of 2011, 702,800 students from low income families registered first through 'Green Channels', 41.1% of the total students from low families (MOE 2012).

Moreover, the repayment period is extended to 6 years from 4 yours for GSSLs (Guoban Fa[2004] No. 51) and 14 years for SHGSSLs (Jiaocai [2007] No. 135) respectively. The new SHGSSLs program offers students a quite longer time(10 years after graduation) to repay student loans than former GSSLs program(only four years), which may reduce the probability of defaulting, especially for those who get low incomes after graduation. Therefore, in the respect of students, the longer the repayment period is, the better it is for them to repay the loans.

For banks

More importantly, the RCFs mechanism, introduced into GSSLs program in 2004, convolutes governments and RHEIs into risk-sharing with banks. The RCFs offer certain protection for banks and banks in turn are encouraged to undertake GSSLs business. Before the introduction of RCFs, longer period was required to cancel the dead-debt, and caused banks of cash shortage. This is why banks were reluctant to release GSSLs and even stopped the business in 2004 in the face of high default rates. additionally, because the ratio of RCFs to annual amount of GSSLs is determined partially by the default rate last year, RHEIs have more incentives to disseminate information about GSSLs application and repayment, ensure students to graduate and collect students' jobs information after their graduation.

Most importantly, the new added SHGSSLs program has a lot of advantages for banks to take use of. First, it is easy for banks to know students' economic status and for students to apply for student loans at their hometown before registration. Second, the low mobility of students' families offers banks the capacity to easily contact their parents or legal guardians whenever students fail to repay loans. China's national individual credit check system is still under construction, and, therefore, it is quite difficult to collect the information of students after their education. When they change jobs or move to other places without reporting to RHEIs or CNCSAAs, banks will turn to nobody to know students' information. SHGSSLs program can reduce banks' risks to certain extent.

However, because both GSSLs and SHGSSLs take the same administrative costs as general credit loans, the collecting costs are already quite high due to the lack of national individual credit check system. In order to resume the GSSLs program in 2004, repayment period is extended to 6 years after graduation, and in 2007 the new SHGSSLs program allows students to take 10 years to repay student loans, in order to reduce the high default rate. But in the respect of banks, longer repayment period means higher collecting costs.

For governments

Even though governments are not the direct participant in student loan programs, the role of governments is agreed to be essential in order to keep the sustainability for a long run. Before 2004, governments only took the roles of making policy, subsiding 50% interests during the whole repayment period and annulling the dead debt of default loans after verification. After the introduction of RCFs in 2004, government financial departments need to take responsibility of 50% RCFs, which involves governments into the program to share defaulting risk with banks together. But governments only subsidize 100% interest during study period.

However, China's governments bear only a quite small part of risk with banks in terms of 50% RCFs, subsidize at most 4 years interests during study period, organize CNCSAA to administrate the program, and build up the national individual credit check system. In order to ensure general availability of student loans, according to the four terms of government participation (Johnstone 2002), government should be the main risk-taker which is quite different from China's case, and a potentially powerful machinery of the government tax and or pension collection systems should also be in place to support the collection of student loans, which is still under construction in China now. Therefore, under such a situation, governments are more critical in taking risks and ensuring the operation of GSSLs and SHGSSLs programs.

Table 1 GSSLs and SHGSSLs programs in China

	GSSLs	SHGSSLs
Starting time	1999	2007
Target group	Full-time poor undergraduates and postgraduates in RHEIs	Full-time poor undergraduates and postgraduates in RHEIs whose legal residence in the same region as the banks offering loans
Scope	National(8 pilots, nationwide from August 2000)	National (5 pilots, nationwide from 2009)
Banks	Four state-owned banks: ICBC, ABC, BC and CCB	CDB and local financial institutions

Maximum/ year (RMB)	6000	6000
Type	Tuitions, accommodation fees, and living expenses.	Tuitions, accommodation fees and living expenses
Administration	Banks, CNCSAA and its divisions	Banks, CNCSAA and its divisions
Interest rate	Commercial interest rate; governments subsidy 100% during study period, and students pay themselves after graduation (governments subsidy 50% during the whole contractual period before 2004)	Commercial interest rate; governments subsidy 100% during study period, and students pay themselves after graduation
Repayment terms	6 years after graduation including the maximum 2 year grace period. (4 years after graduation without grace period before 2004)	10 years after graduation including the maximum 2 year grace period, but less than 14 years including study period
Loan collection	RHEIs and banks	CNCSAA and its divisions
RCFs	Certain rate of the annual amount of GSSLs; RHEIs and governments bear 50% respectively. (Starting from 2004)	15% of the annual amount of SHGSSLs; Governments bear RCFs.
Guarantee	Students' credits	Students and their legal guardians' credits
Sanction	Publish defaulted students information to the public	Publish defaulted students information to the public
Dead debt	Cancelled according to relative regulation	Cancelled according to relative regulation

Source: author

7. Issues existing in GSSLs and SHGSSLs programs in China

Even though lots of efforts have been made to facilitate the implementation of GSSLs and SHGSSLs program, there are still some issues which need to be solved by policy makers.

For students

First of all, the maximum amount offered by both GSSLs and SHGSSLS is 6000 RMB ($951.29). Since RHEIs started to charge students for higher education in 1989, the tuitions had increased from just 100-300 RMB ($15.85-47.56) (free accommodation) to average 4000-5000 RMB ($634.20-792.74) (the average accommodation fees was 1200 RMB ($190.26)) in 2007 (MOE 2007). However, the average expenditure of around 4,0000 RMB for a four-year university course cost 4.2 years net income of a city or town dweller or 13.6 years net income of a peasant (Guangzhou Daily 2005). Therefore, 6000 RMB ($951.29) is an amount too small for students from low income families. Besides, the tuitions for degrees such as in medicine, arts etc. are comparatively much higher than degrees in humanities, social sciences. But, student loans program does not take students' needs into consideration.

Besides, repayment options provide hardships to loan recipients. The repayment terms are six years for general GSSLs and ten years for SHGSSLs (for undergraduates) after graduation including one-two year grace period. Taking the repayment burden of loan recipients into consideration, the repayment period of six years is short. According to Johnstone (2005), a maximum of 10-15 percent of earnings is a ‘manageable’ loan repayment. Chinese College Graduates Employment Annual Report shows that the average monthly earnings of college graduates after the first half year after graduation are 2479 RMB ($393.04) in 2010, 2130 RMB ($337.71) in 2009, and 1890 RMB ($299.66) in 2008 (MYCOS 2011). Taking a student who gets student loans of 24,000 RMB ($3805.18) (6000 RMB ($951.29) per year) and starts to repay after two years grace period as an example, he needs to pay at least 6000 RMB ($951.29) annually (500 RMB/$79.27 monthly) for four years in the case of GSSLs, and at least 3000 RMB ($475.65) annually (250 RMB/$39.64 monthly) for eight years in the case of SHGSSLs. One-third of graduates cannot bear the repayment burdens of more than 200 RMB per month in the first four years after graduation (Liao 2008). Therefore, the length of repayment terms and grace periods can influence repayment ratios (Shen and Ziderman 2008). Under the pressure of low earnings and house purchasing, it is obvious that graduates need longer period to manage to repay student loans.

Moreover, there is a lack of concerns over exceptions such as major diseases, unemployment etc. Under current policies, only loan recipients who work in the grassroots in the western regions or remote areas for three or more years can be supported by the forgiveness of student loans and instead governments repay both the principal and its interests. It is necessary for policy makers to consider the forgiveness of student loans for more exceptions.

For banks

Obviously, the default risk remains the biggest threat to banks. Banks do not only release student loans, but also take the responsibilities of collecting them. From the view of risk-sharing, banks are vulnerable to most risks even though RCFs can partially relieve some of the risks. GSSLs take the same administrative costs as general credit loans, but their collecting costs are extremely high due to the lack of national individual credit check system. In January 2006, a survey about GSSLs repayment in 12 universities showed that 79.38% loan-received graduates did not contact banks after graduation and banks lost contacts with 92.5% loan-received graduates who had defaulted more than two years (Luo and Xiao 2006). Therefore, how to track graduates is the key to ensuring repayment. Though the GSSLs student information system has been put into operation to collects GSSLs students' information since 2002, this system only works well under the condition that students study in RHEIs, but after their graduation or job changes, banks will not be able to track these students unless they make the effort to contact the banks. The national average default rates of GSSLs have been higher than 20% since its beginning, and, therefore, it is crucial to speed up the build-up of national individual credit check system connecting with GSSLs student information system.

For governments

Importantly, government participation in GSSLs program is in question. In China, governments are only responsible for regulations, interest subsidy, part of RCFs and cancelling dead-debt for GSSLs program. But all the student loans programs with characteristic of general availability are either government direct loan program or government guarantee loan program. The former is that government agents including special sectors or policy banks act as direct loan suppliers, and therefore leaves no gap between demands and supplies for student loans; the latter is that commercial banks or other financial institutes release student loans with government guarantees to students. Either government direct loan program or government guarantee loan program ensures the general access of student loans. But in China's current practice, both GSSLs and SHGSSLs are released based on students' credits without government guarantees, which means that if graduates are unable to or choose not to repay due to unexpected situations such as unemployment, diseases, etc., banks will have to bear the losses by themselves. In 2009, poor students were 23.06% of enrolled students, but only 7.48% of enrolled students were supported by GSSLs and SHGSSLs (MOE 2010). The big gap between the demand and supply of GSSLs should be addressed by policy makers from the view of the role of government participation in risk-bearing.

What is more, the income disparity of graduates makes no differences in repayment plans. Under the pressure of short repayment terms, graduates without a job or with low earnings have no choice but to default. Therefore, the income contingent loans could be an alternative approach. Only when their earnings reach or above certain thresholds, graduates need to repay certain percentage of their earnings. If graduates remain unable to repay all students loans within maximum years, it can be cancelled finally. Providing insurance against repayment hardships and default is the critical significant advantage of income contingent approach. However, in order to make income contingent loans operational and successful, the efficient collection mechanism is of great importance. The effective and reliable collection systems are the inevitable conditions for the introduction of income contingent loans in developing countries (Johnstone 2004a). The accurate record-keeping of graduates' information in a sound collection system makes it possible for banks and governments to know the incomes of graduates and enable them to collect payments from their employers. Therefore, in order to apply the income contingent alternative, China governments has to go about the construction of national individual credit check system connected with GSSLs information system.

8. Policy recommendations

Firstly, governments should provide partial guarantees of GSSLs with students' parents. Governments should provide guarantees to GSSLs in order to lower banks' risks, thus eliminating the gap between demands and supplies of GSSLs (Yang 2007). However, if under full government guarantees, both banks and students might engage in 'moral hazard'. As for banks, if governments offer guarantees to repay all the default loans, banks are unlikely to collect default loans, especially in china where the collecting costs are very high. There should be specific rules on how banks are supposed to collect default loans. As for students, given that banks may have fewer incentives to collect default loans under government guarantees and there is no sound national individual credit check system to track them, even financially capable student may choose not to repay, which may lead to higher default rates than before. Therefore, it is necessary to involve student's parents into guarantee too, because they can know and contact graduates' information with the least costs.

Secondly, an efficient collection system must be established as soon as possible, equipped with legal authority to collect, computerized records to track graduates' earnings, and, if possible, connected with national individual credit check system. National financial sector needs to speed up the establishment of national individual credit check system; banks need to set up effective repayments supervision system; CNCSAAs have to improve the management of graduates' information; universities should build the requiring system of their own students' information. All the information should be connected and stored to form graduates' individual credit files. Only under such a national database like this can banks track graduates' earnings and collect repayments, and will students actively repay because of the credit loss from defaulting behaviors.

Thirdly, repayment terms should be sufficiently long in order that most loan recipients can manage to repay their loans monthly or annually. In China, it is difficult for graduates to repay more than 200 RMB ($31.71) monthly. The repayment term of only 6 years for GSSLs is too short and likely to cause defaulting behavior. But, the repayment term of 10 years for SHGSSLs is relatively more feasible than that for GSSLs. Therefore, the repayment terms for GSSLs should, at least, be expanded to 10 years as SHGSSLs.

Fourthly, to combine conventional fixed repayment plans with income contingent repayment plans, called as hybrid fixed schedule-income contingent loan plans by Johnstone (2005). This plan arrangement allows graduates to pay a fixed amount only when the fixed amount does not exceed the maximum percentage of their monthly or annual earnings. Otherwise, they pay income contingently until their earnings exceed threshold. That is, when graduates are capable to repay, they pay the fixed contractual schedule; when they are unable to repay due to unemployment or low earnings, they could be transferred to income contingent repayment plans; if their earnings rise, they would return to the fixed scheduled again.

Fifthly, situations such as low earnings, major diseases, unemployment etc. should be taken into account in repayment plans. If graduates can verify their unemployment, major diseases or low earnings, their repayment term should be expanded longer or ultimately forgiven at some point of maximum years.

Sixthly, the loan size should be determined according to the needs of students. The current loan size of maximum 6000 RMB ($951.29) is insufficient to cover students' educational expenditure including tuitions, accommodation fees, transportation fees and food (on average, 10,000 RMB-$1585.49 per year).

9. Conclusions

Even though GSSLs program are overwhelmingly welcomed by both students and their parents, the policy dilemma of GSSLs program in China-banks' reluctance to lend and graduates' unwillingness to repay remains great challenges in financing higher education. GSSLs, as credit loans in China where sound national credit system is absent and individual credits are not influential in comparison to developed countries, bring banks high default rates and offer students opportunities to engage in 'moral hazard'. Thus, banks want to lessen or stop student loans business under high default rates, and graduates choose not to repay student loans under the absence of national credit database system.

The high default rate is a crucial problem for the sustainability of GSSLs program in China. How to reduce banks' risks and graduates' defaulting behaviors determines whether GSSLs program could effectively and efficiently finance higher education. Therefore, it is time for policy makers to consider: Are government guarantees necessary for GSSLs? How to effectively establish national individual credit check system as soon as possible? Should repayment terms be prolonged? Is it feasible to experiment hybrid fixed schedule-income contingent repayment loan plans? Only when these problems are solved, student loan programs in China can lead to successful way.

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Default rate=the number of students who fail to repay loans more than 90 days/total number of students who are in the repayment period.

<中文提要>

自從1999年開始實施國家助學貸款政策以來， 高違約率一直是國家貸款政策所面臨的巨大挑戰。 爲何中國國家助學貸款政策會面臨這樣一个政策困境： 學生不愿還款（高違約率）和銀行不愿發放貸款？ 本文指出全國性信用体系的不健全，過短的還款期限，以及政府的參与度過低導致了高違約率的發生。進而，高違約率降低了銀行發放貸款的積极性，甚至停止了國家助學貸款的發放。 國家助學貸款的可持續性發展依賴于銀行風險的降低以及畢業生的還款情況。因此，政策指定應該考慮一下几个方面：政府是否應該參与國家助學貸款的担保？政府如何盡快建立全國性的信用系統？是否應該延長還款期限？混合式還款計划是否可行？

關鍵詞：國家助學貸款、違約、還款、政府、銀行

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