

## **CHAPTER I**

### **INTRODUCTION**

#### **A. The Background**

A student loan is designed to help students pay for university tuition, books, and living expenses. It may differ from other types of loans in that the interest rate may be substantially lower and the repayment schedule may be deferred while the student is still in school. It also differs in many countries in the strict laws regulating renegotiating and bankruptcy<sup>1</sup>.

Student borrowers begin making payments on federal loans six months after their enrollment ends (either due to graduation or withdrawal). During the six-month grace period, borrowers have the opportunity to enroll in a number of different payment plans. If a borrower does not enroll in an income-based plan, either because they do not elect to do so or because they are ineligible, their payments will be based on the standard repayment plan. In this plan, monthly payments are determined by the total outstanding principal, the interest rate, and the term of the loan. Borrowers face a standard 10-year repayment term, but by consolidating their loans can extend their repayment term to up to 30 years depending on the amount of their total indebtedness.

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<sup>1</sup>Student Loan-Wikipedia, [http://en.wikipedia.org/wiki/Student\\_loan](http://en.wikipedia.org/wiki/Student_loan), viewed April 23, 2015

Under the standard repayment plan, monthly payments are the same throughout repayment and do not fluctuate with the borrower's income. However, there are some instances in which borrowers are not required to make payments. Monthly payments can be deferred under the standard repayment plan for up to three years if a borrower is enrolled in school (at least half time), faces economic hardship due to unemployment or underemployment, or is active in the military. If a borrower does not qualify for deferment but cannot make payments as scheduled, they may also apply to their lender for a forbearance which allows them to make reduced payments or no payments at all for up to 12 months. Reasons for forbearance include illness, severe financial hardship, and employment in some particular areas of public service (e.g., national guard, teaching).

Borrowers who are not behind on loan payments are generally eligible to participate in income-based repayment if the payment on the plan they choose is less than it would be in a ten-year standard repayment plan. This will be true for borrowers that have a high ratio of debt to earnings, which can be caused by a large debt burden, low earnings, or both. The set of income-based repayment programs include the original Income-Based Repayment Plan (IBR), the Pay As You Earn Plan (PAYE), and the Income-Contingent Plan. We do not discuss the Income-Sensitive Repayment Plan here because it is not available to recent borrowers.

Ability to restore student loans can also be measured on the situation of the student family circumstances but that was the problem very difficult to identify the student's family financial situation. All types of student loan program offers loan with government financial subsidies to students in need. When a loan application is checked, the economic situation of students' families will be identified and because there is no strict declaration system and the individual sounds of income tax in China and many taxpayers can't meet the current standards of cost cutting individual income tax is impossible to collect information on all situations the student family economy, but in these conditions the criteria of student loan recipients very noticed in reference admissions such loans.

Phenomenon in China in the case of higher education, as is the case in most other countries, carry out the education system with attractive costs. Each student on average each year has to pay about 6,000 yuan Rmb or approximately 750 US dollars for tuition, plus at least 4,000 yuan, or about 500 dollars for living expenses. For most families, the amount of money it does not become a burden; but for low-income families, this is an enormous burden. Then, how students from poor families in China to overcome the problem of tuition fees? We take the experience Xiang Xiufeng, a student from poor families as an example.

Xiang Xiufeng 17 year old was born in Badong County, Hubei Province, China which is confined in the central part of the mountain Gemunung and economically disadvantaged. Xiang father Xiufeng a local primary school teacher with a salary of 800 yuan, or nearly 100 US dollars per month, while her mother at home farming. Their income is not classified as too low in the region, but because of the health condition of the parents Xiang Xiufeng unfavorable and must often seek treatment, plus a pair of sister twins have passed the university entrance exam last year, in order to finance her siblings to go to college, the family savings Xiang Xiufengbeen drained, and bear a number of debts.

This year, Xiang Xiufeng with superior test results received by Shanghai Jiaotong University, a well-known university in China. The whole family is very glad to have the news. However, on receipt of notification of Xiang Xiufeng by the university in writing that each year tuition fee is 7,000 yuan or about 875 US dollars. In addition, the cost of living during college at least need 4,000 yuan or 500 US dollars per year. That much money for the family inevitably XiangXiufeng like astronomical figures.

By the time the whole family Xiang Xiufeng was puzzling over the tuition fees, the university told over the phone that the university has opened "green line" for students from poor families to allow them to college and pay tuition later. Once at university, college students should be concerned first

before paying tuition, simply by filling out a form on the state of the family. On this issues of tuition fees, the university will strive with them to solve. What is meant by "green line" is to pay tuition fees later. The university will help the student in question to contact the bank or the government to provide loans to college; In addition, the student concerned may ask the university to obtain waivers or tuition fee waiver.

College loans are loans that are specifically held the Chinese government to help students from poor families to resolve the issue of tuition fees. The loan was granted with an interest rate much lower than general loans. Under the terms of the loan, a student loan each year to college else is to ask as many as 6,000 yuan, or about 575 dollars. During the lecture, the loan interest is borne by the government, and the student in question began to repay the loan within one to two years after completing his studies. Deadline longest repayment 6 years.

While beg college credit, Xiufeng Xiang will likely be able to enjoy a reduction or exemption of tuition fees in accordance with government policy and the university. In addition, if the student in question still have the energy outside of class hours, he must take part in education and training activities organized by the university. And after obtaining the certificate, he will be able to work while participating in activities organized by the university college.

Thus, income derived essentially will be able to cover the need for cost of living<sup>2</sup>.

In this issues could power the student to repay the loan after completing a period of learning to be a problem because the land area of work for their pay they get is not necessarily, in these conditions any family factors influencing students to help pay the loan to the concerned agencies that provide such financing. As for those students who have not been able to pay the loan until they get a job is devastating for students who run it. Imagine once they got a bachelor's degree after graduating scholars, their principal task is to pay the loan and ironically the are forced to seek high-wage jobs in order to pay off the loan and undertakes all the necessities of life if not forever they will be chased by loan debt when they learn in collage high even for the cost of living was not necessarily afford their own.

Since loan for strategic purposes, national student loans have helped millions of poor students successfully graduate from college. Turns out financial forms to increase its sponsorship of poor students in colleges and universities and improve the poor student's subsidy system that goes completely right, and remained popular.

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<sup>2</sup>Phenomenon Student Loan in China, *Student Less Can be*

*Finish*, <http://indonesian.cri.cn/1/2004/12/20/1@20917.htm>, viewed September 11, 2015

Default rates help to gauge the cost of federal student loan programs. According to the U.S. Department of Education, on average the federal government is not able to fully recover losses when a borrower defaults on a federal student loan. These defaults can be costly for the government because it often takes many years to collect on a defaulted loan. The section below on collection and recovery rates for defaulted loans provides one measure of these costs.

Additionally, default rates measure the degree to which borrowers are unable to repay their loans, a proxy for a cohort of borrowers' ability to find employment after graduation. Therefore, the Department uses an institution's default rate as one indicator of that school's quality. The Department also uses default rates to assess the performance of private companies that collect payments, inform borrowers of their repayment options, and perform other administrative roles once the borrower enters repayment. Default rates also indicate the extent to which borrowers are struggling to repay their loans and can help guide policymakers in adopting repayment policies and assistance programs<sup>3</sup>.

On-time student loan payments can positively impact your credit. Sallie

Mae encourages customers to make payments online and to participate in

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<sup>3</sup> Significance of Student Loan Default Rates, <http://febp.newamerica.net/background-analysis/federal-student-loan-default-rates?link=instory>, viewed April 30, 2015

auto-debit to reduce the likelihood of delinquency. Some loans may qualify for an interest rate reduction for making payments through the automatic debit program. Sallie Mae alerts customers who have missed a payment and remind them to take action to return their account to current status.

For federal student loans, Congress created several repayment options including standard repayment, extended repayment and Income-Based Repayment, which can payments at 15% of the borrower's discretionary income. For private education loans, repayment options vary with the lender and the loan and are typically outlined in the promissory note or contract signed before the loan is accepted.

## **B. Identification of Problems and Restrictions of the Problem**

### **1. Identification of Problems**

- a. The development of student loans in China has been much in demand by student who wants to continue their studies.
- b. The majority of existing borrowers who them who misappropriate funds from the federal student loans.
- c. A refund of federal student loans is still many difficulties in the repayment of such funds.



## **2. Restrictions of the Problem**

In this case the federal student loan funds much in demand by student who have difficulty funding to continue his studies because the refund using a low fixed interest.

### **C. Formulation of the Problem**

Based on the description above, it can be formulated issues that will be the topic of discussion following:

1. Whether low fixed interest affects the interest of the students to use federal student loan funds?
2. Whether the family economic factors affecting the interest of the student to use federal student loan funds?

### **D. Purpose Formulation of the Problem**

1. To determine whether low fixed interest affects the interest of the students to use federal student loan funds.
2. To determine whether the family economic factors affecting the interest of the student to use federal student loan funds.

### **E. Benefits and Uses**

Through discussion by the author, is expected to provide the following benefits:

a. For Author

For the author of this discussion as additional knowledge about federal student loan funds are subsidized by government for use by student who wish to continue their studies.

b. For Students

For students of this discussion as additional knowledge to know the rules and regulation borrower federal student loans are held by the government.

c. For Government

For the government of this discussion as additional knowledge to obtain information were criteria for recipients of federal student loans should be adjusted by the recipients' family economy factors for the right target recipients.

## **F. Writing System**

The purpose of the systematic manufacture of this paper is to provide a concise and clear about the contents and chapter by chapter. Systematic discussions are as follows:

### **CHAPTER I : INTRODUCTION**

In this chapter will describe the background, identification of problems and restrictions of problem, the formulation of the problem,

purpose formulation of the problem, benefits and uses, as well as the systematic writing.

## CHAPTER II : LITERATURE REVIEW

In this chapter describes a literature review that contains theories as guidance material to address the existing problems in the formulation of the problem. It also makes framework research.

## CHAPTER III : RESEARCH METHODOLOGY

In this chapter describes the method used, the object of research, operational definitions of both the dependent and independent variables, data collection techniques and methods of data analysis used in this study.

## CHAPTER IV : OVERVIEW LOCATION RESEARCH

In this chapter explains the extensive history of the Ministry of Education in China in this study.

## CHAPTER V : RESULTS AND DISCUSSION

In this chapter shows the results of the analysis of data that can help researchers to explain the data studied so as to facilitate the

researcher to the conclusion of the results of this study.

## CHAPTER VI : CONCLUSION AND SUGGESTION

In this chapter is closing, presents conclusions and suggestions were obtained by the authors based on the results of research analysis.