

# *Student Loan Policies in Korea: Evolution, Opportunities and Challenges*

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*This article reviews the role of reforms in student loans policies in contributing to the expansion of higher education in Korea from a historical perspective. Since the end of the Korean War in 1950, the development of Korea's loan system has occurred at a dramatic pace concurrent with the rapid expansion of Korean higher education. The major features of the reforms are as follows: (1) 1950s to early 1980s: Interest-free student loans; (2) 1985–2005: Subsidized interest rates loans scheme; (3) 2005–present: Student loans-backed securities scheme (SLBS); and (4) 2010: Income contingent loans as a supplement to SLBS. The driving forces behind these reforms were social pressures to increase affordability of higher education for all, and the need to secure a sustainable funding mechanism corresponding to the increase*

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*in student loans. Although the loans policy was instrumental in expanding higher education in Korea, its effect was mediated by various factors such as the relationship between the funding structure of higher education and private higher education institutions (HEIs), the regulation on university establishment and deregulation of student quota, education fever, and economic conditions. The Korean case demonstrates the complicated dynamics between reforms in the student loans system and expansion of higher education in Korea.*

*Key words: student loans policy, higher education expansion, Korea*

## **Introduction**

Expanding access to higher education has been a vital task to most countries. Access to higher education has been essential not only for national development, but also for individual advancement (Altbach, 2006). However, governments in many countries have been under financial constraints to adequately support their higher education institutions (HEIs). Higher education has had to compete for limited public revenue with other compelling needs of the economy, such as basic education, social welfare, public health and public infrastructure (Johnstone, 2007). A key strategy to increase access to higher education in many countries has been to implement a student loans scheme as a means of sharing the costs involved in the expansion of higher education (Albrecht & Ziderman, 1993; Woodhall, 2004). Loans scheme transfers higher education costs from a significant reliance on governments and taxpayers to parents and students, based on the rationale that greater equity in access to higher education is achieved through the user-pay system (Johnstone, 2004a). When students and parents assume the costs of higher education through tuition fees, the government can spend the excess funding resulting from this shift in cost burden on financial aid to

needy students. In this way, loans schemes have the potential to reform financial efficiency and accessibility of higher education.

Various loans schemes have been in operation in around 75 countries, with the largest loans schemes found in advanced economies such as the United States and Australia (Shen & Ziderman, 2009). Two basic forms of student loans exist, with variations of each or hybrid versions of the two (Johnstone, 2004a), and the type of repayment schedule being the major difference among them (Salmi & Hauptman, 2006). The conventional mortgage-type loan is characterized by fixed interest rate and repayment period, with the burden of repayment being the varying element; while the progressive loan type — income-contingent loans (ICL) — requires an obligation to commit a fixed proportion of the borrower's future earnings until the loan is repaid. ICL was introduced in Australia in 1989 and the U.K. in 1997, and more recently in transition and developing economies (Albrecht & Ziderman, 1991; Johnstone, 2007).

International comparisons of loans schemes abound in academic literature (Johnstone & Marcucci, 2010; Salmi, 1999), with a focus on the differences in higher education accessibility and loans systems among OECD countries (Organisation for Economic Co-operation and Development, 2009), developing countries in Sub-Saharan Africa (Johnstone, 2004b), Latin America (Murakami & Blom, 2008) and South Asia (Chapman, 2006). In addition, other studies have focused on countries that have successfully implemented ICL, such as Australia (Chapman & Ryan, 2002) and the U.K. (Greenaway & Haynes, 2003); and countries that have implemented ICL as an option, such as the U.S. (Schrag, 2001) and Canada (Finnie & Usher, 2006). While most of these studies analyze the impact of specific loans schemes to higher education accessibility in order to inform the planning of an effective loans policy, they largely do not discuss student loans policies in relation to the expansion of higher education from a historical perspective. One reason may be that a causal relationship between loans policy and higher education expansion cannot be assumed or even established due to the lack of appropriate data.

The case of Korea has relevance for developing countries looking to increase higher education opportunities using student loans. Korea's

participation rate in higher education has seen an unprecedented growth from under 6% to 70.4% between 1960 and 2009 (Korean Educational Development Institute [KEDI], n.d.). Higher education attainment rate for the age group 25–64 in Korea has also increased from 20% in 1997 to 28% in 2008 (OECD, 2010). In 2008, the rate of higher education attainment for young adults aged 25 to 34 in Korea was 58%, which was highest among OECD member states that had an average of 35% (OECD, 2010). The growth spurt of higher education has been especially apparent in the 1990s, when higher education assumed a strategic role in advancing the country towards a knowledge-based economy (Kim & Lee, 2006). Interestingly, such notable expansion was made possible by increasing the role of the private sector in higher education and by minimizing government funding (Choi, Kim, Jang, Chae, & Jung, 2008; Jang, 2009). Government expenditure on HEIs as a percentage of GDP in 2007 was only 0.6, which is considerably lower than the 1.0 average of OECD member countries (OECD, 2010), while the proportion of students enrolled in private HEIs grew to 74.7% by 2009 (KEDI, n.d.). Despite minimal public spending on higher education, the Korean government has implemented strategic education policies through the regulation and deregulation of HEIs, particularly in the quest for expansion since the 1980s. It is within this context that attention should be given to the dynamics between reforms in the student loans system and expansion of higher education in Korea. During the past 50 years, Korea's loans policy has undergone four major developmental phases: (1) 1950s to early 1980s: Interest-free student loans; (2) 1985–2005: Subsidized interest rates loans scheme; (3) 2005–present: Student loans-backed securities scheme; and (4) 2010: Income contingent loans as a supplement to SLBS. However, research on the reforms of student loan policies in Korea has been lacking in the international academic community. With the exception of one in-depth study (Kim & Lee, 2003), the Korean loans scheme has at most been briefly introduced in international comparisons of loans systems (Bray, 2000; Woodhall, 2007; Ziderman, 2004).

This paper, therefore, explores whether reforms in student loans policies have been implemented appropriately in relation to the expansion of higher education in Korea. The paper first describes the

funding mechanism of Korean higher education to highlight the role of the loans system. Second, it examines the development of student loans and higher education expansion and discusses major challenges in the process and related policy responses. Lastly, the paper discusses the implications of leveraging loans policy to expand higher education for developing countries, using the Korean case as an example.

## **Funding of Higher Education in Korea**

Private sources have made a large contribution to the rapid expansion of Korean higher education. In 2009, 78.8% of students enrolled in four-year universities attended private institutions, while 96.7% of two-year college students attended private institutions (KEDI, n.d.). A similar trend is found in the total number of HEIs, with the proportion of private four-year universities at 85.3%, and private two-year colleges at 93.2% in 2009 (KEDI, n.d.). Such significant proportion of Korean private HEIs, however, cannot be attributed to the Korean government's response to marketization, competitiveness or globalization, which is often the case for advanced economies (Lee, 2008). Instead, the progress can be explained by changes in the government's regulatory policies as well as the Koreans' strong preferences for higher education (Chae & Hong, 2009). By reducing regulations on the establishment of private HEIs and number of student places, the government has been able to expand higher education with minimal funding.

Until the 1990s, the Korean government invested primarily in basic education to produce the semi-skilled workers needed for rapid industrialization according to the Five-Year Economic Development Plans (Kim, 2000; Weidman & Park, 2000). The private returns to higher education were considered much greater than the social returns since the participation rate in higher education was only 11.4% in 1980 (KEDI, n.d.). However, government's policy on higher education funding has changed since the 1990s with the emergence of knowledge-based economies in most industrialized nations, when it started to provide direct and indirect subsidies to private HEIs (Rhu, 2005). This has resulted in a significant increase in the total government expenditure on higher education between 1995 and 2009 (see Table 1).

**Table 1: Korean Government Budget for HEIs**

Year	Total budget for HEIs (KRW)	Number of students enrolled in HEIs	Higher education budget per student (1,000 KRW)
1995	14,494	2,326,688	62.3
2000	29,299	3,359,788	87.2
2005	34,633	3,547,432	97.6
2009	47,792	3,496,422	136.7

Source: *Korean Government Budget for HEIs* (Ministry of Education, Science and Technology, 2010a).

However, government expenditure on basic education as a percentage of GDP continues to be much greater (3.4) than its expenditure on higher education (0.6), as reported in 2006 (OECD, 2010). Consequently, higher education depends heavily on private resources as evident in the income structure of private HEIs. In 2007, 57.2% of the total income of private HEIs came from tuition fees, whereas only 8.0% (program-based funding) came from the government (Song, 2010). In contrast, 29.7% of the total income of public HEIs came from tuition and 47.2% from government subsidy (Song, 2010). Such differences are reflected in the tuition fees and amount of loans borrowed by students in public and private HEIs. On average, the tuition for public universities is about 40% that of private universities (KEDI, n.d.). In 2010, the average tuition of public four-year universities was 4,478,400 KRW, while that of private universities was 7,540,700 KRW (KEDI, n.d.). Due to this significant difference, students enrolled in private HEIs tend to borrow more loans than those in public HEIs. As of March 2010, 8.6% of students enrolled in public — compared to 12.7% from private — universities received loans issued by the Ministry of Education, Science and Technology (MEST) (see Table 2). This demonstrates the potential impact of the loans system on higher education accessibility when the private sector is dominant.

Such rapid expansion of the higher education sector, led primarily by private institutions could raise the issue of quality. This was mainly dealt by the quality assurance mechanism that was systematized in 1984 when the Korean Council for University Education conducted a

comprehensive evaluation of four-year universities (KEDI, 2006). Other voluntary agencies, such as the Korean Council for College Education conducts evaluation of two-year colleges, while private accreditation agencies perform discipline-specific evaluation in areas of engineering, medicine and architecture.

**Table 2: Number of MEST's Loans Recipients (as of March 31, 2010)**

	Public			Private		
	Total no. of students	No. of loan recipients	% of recipients	Total no. of students	No. of loan recipients	% of recipients
Four-year universities	513,316	44,242	8.6	1,636,974	207,817	12.7
Two-year colleges	25,248	2,122	8.4	735,681	107,741	14.6

Source: *Implementation of ICL in the First Semester of 2010* (MEST, 2010b).

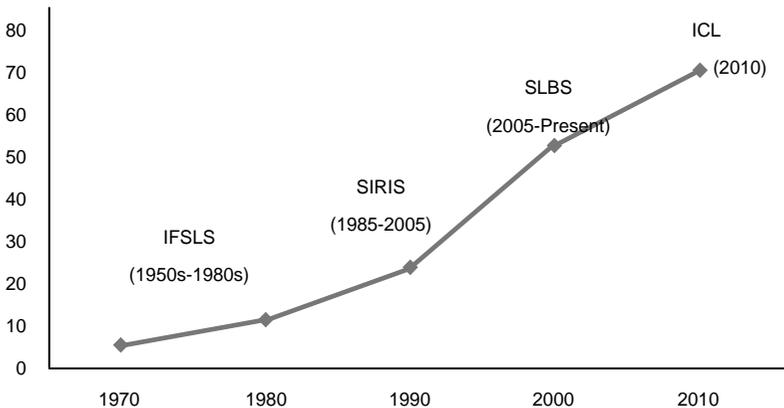
In addition to the MEST, six Ministries (Public Administration and Security; Food, Agriculture, Forestry and Fisheries; Defense; Patriots and Veterans Affairs; Labor; Unification) administer various types of national scholarship and student loan programs. Their total annual budget for the programs in 2009 was 1,785 billion KRW and the number of student beneficiaries was 398,715, equivalent to 12.4% of the students enrolled in all HEIs (MEST, 2010b). Among these programs, the MEST takes the lion's share in terms of the number of student beneficiaries and its loans value. In 2009, the proportion of student aid programs implemented by the MEST among the total number of programs, in terms of the number of student beneficiaries and its value, were 72.8% and 48.7% respectively (Nam, Song, & Lee 2010).

## **Reforms in Student Loans Policies and the Expansion of Higher Education in Korea**

The Korean government's student loans system has undergone several reforms at a dramatic pace concurrent with the rapid expansion of Korean higher education (see Figure 1). The major features of the

reforms are as follows, in chronological order: (1) 1950s to early 1980s: Interest-free student loans scheme (IFSLs); (2) 1985–2005: Subsidized interest rates loans scheme (SIRLS); (3) 2005–present: Student loans-backed securities scheme (SLBS); and (4) 2010: Income contingent loans (ICL) as a supplement to SLBS. The following section discusses the main features of the loans system during each reform in relation to the expansion of higher education in Korea, with a focus on the MEST as the major provider of loans.

**Figure 1: Participation Rate in Higher Education and Reforms in Student Loans Policies in Korea**



Note: Participation rates in higher education = Number of students enrolled in higher education/Number of population aged 18–21 (college-age population in Korea).

Source: *Education Statistics Yearbook 2010* (KEDI, 2010).

### **1950–Early 1980s: Interest-free Student Loans Scheme (IFSLs)**

The very first student loans scheme in Korea was based on Article 9 of the 1949 Education Act, which stipulated that the state and local governments had to establish and implement scholarship and tuition fees subsidization schemes for high-performing students with financial difficulties. The Student Loans Scholarship Act was subsequently

established in 1961 to provide loans to impoverished students enrolled in HEIs and vocational high schools at no interest (Kim & Lee, 2003). The amount of loans in 1961 comprised only 2.1% of the general account of the Ministry of Culture & Education (Ministry of Education & Human Resources Development [MOE & HRD], 2007). In 1971, the government established the Korean Scholarship Foundation and implemented a small-scale student loans program. Until 1985, the function of loans were similar to that of scholarships as both were available only to qualified, high-performing students (Nam, 2008), thereby restricting access to higher education. In 1980, the participation rate in higher education stood only at 11.4% (6.6% for females) (KEDI, n.d.).

### **1985–2005: Subsidized Interest Rates Loans Scheme (SIRLS)**

Student loans scheme was first implemented in Korea in 1985 with the introduction of Subsidized Interest Rates Loans Scheme (SIRLS), which guarantees loans interests. This led to a considerable rise in the number of loans recipients. Ironically, it was neither changes in higher education nor government financial policies, but the policy that prohibited the private tutoring of school-aged students that contributed to this phenomenon. Private tutoring was widespread at the time due to the education fever of the Korean society, which affected students' well-being and created a social burden as the costs of tutoring inflated. The law on the prohibition of private tutoring was enacted to solve these problems, which left university students in financial constraints as their main source of income to pay tuition fees was removed. The government introduced SIRLS as a means to increase the scale of loans by guaranteeing partial loans interest, instead of the full interest as it did previously. The loans increase was also supported by various social sectors including higher education, which expanded following the rapid advancement of the Korean economy in the mid-1980s that created social demands for high-skilled labor to enhance productivity and services. Higher education participation rates were 22.9% upon the introduction of SIRLS (KEDI, n.d.) by the Ministry of Education (MOE)

that provided loans at low interest rates through thirteen commercial banks. In 2004, the annual interest rate of 8.5% was shared between the MOE (4.5%) and students (4.0%), with the maximum loans per student at 20 million KRW. SIRLS was available only to low-income students as government funding was limited and could only guarantee the interests of a restricted proportion of borrowers.

The overall growth rate of student loans under SIRLS was incremental until 2000 (see Table 3) as the ban on private tutoring was lifted and the economy grew rapidly. However, when the Korean economy was hard-hit by the 1997 Asian financial crisis, the MOE decided to substantially increase the amount of student loans to help students in such unexpected financial crises. In addition, the Kim Dae-Jung administration (1998–2003) which stressed social equality made a significant contribution to the expansion of student loans by increasing financial aid to students from low-income households. The deregulation of the 1998 law on the establishment of universities and number of student places also contributed to the expansion of higher education. As a result, the participation rate in higher education rose from 36.0% in 1995 to 59.3% in 2003 (KEDI, n.d.). All of these factors contributed to the increase in the proportion of loans recipients by 1.6-fold between 1985 and 2005, and the total amount of loans by 40 times over the same period.

**Table 3: Number of Government Loan Recipients and Participation Rates**

Year	Students			Total loan (1,000 KRW)		Participation rates in HE (Female)
	Total no. of students	No. of recipients	% of recipients	Total amount	Per student	
1985	1,242,176	46,225	3.7	21,649,685	468.4	22.9 (16.2)
1990	1,450,902	109,149	7.5	75,526,158	692.0	23.6 (19.1)
2000	2,808,108	224,746	8.0	458,541,602	2,040.3	52.5 (47.8)
2005	2,994,953	294,000	9.8	892,300,000	3,035.0	65.2 (61.1)

Source: *Statistics on Student Financial Aid* (MOE&HRD, 2007).

## **2005 Second Semester–Present: Student Loan-backed Securities Scheme (SLBS)**

In the mid-2000s, the student loan-backed securities scheme (SLBS) was introduced in Korea's higher education, based on the loans system implemented in the U.S. Reform in student loans policy became one of the key agendas under the Rho Moo-Hyun administration in 2003, as it aimed to address the issues of social inequity and unbalanced regional expansion of higher education (MOE & HRD, 2007). The previous loans scheme (SIRLS) had the following limitations in expanding its size (Kim et al., 2004; Kim, 2009): first, the expansion of student loans was restricted since it was difficult for the MOE to increase the corresponding interest subsidy. Second, it depended largely on commercial banks for fund-raising and risk management that formed the core of the loans system. Third, SIRLS supported tuition fees only, which presented a dilemma for students from low-income backgrounds, often in need of loans to cover both tuition fees and living costs to complete their studies.

SLBS, which was implemented in 2005, was a partial solution to these problems. In comparison to SIRLS, SLBS has the following features: first, with the introduction of government-guarantee and securitization of student loans, regardless of the academic field of study, the maximum loan amount doubled to 40 million KRW per undergraduate, and a maximum of 60 million KRW per student enrolled in specialized fields (science and engineering, medicine, dentistry, law). Second, with the change to government subsidization of repayment, the direct interest subsidy provided by the government was abandoned except for subsidy to low-income students. Third, the repayment period for SLBS was extended to 20 years from 14 years under SIRLS, comprising a grace period and repayment schedule of ten years each.

The amount of loans was determined by two main factors: student's family household income and academic discipline. Family household income is divided into four quartiles consisting of ten household income levels (see Table 4). Borrowers had to maintain a grade C average in order to continue receiving loans throughout the duration of their studies.

**Table 4: Loans Condition by Income Levels under SLBS Scheme**

Level	Loans amount (per annum)		No. of Loans Recipient
Basic level:	Full scholarship: 4.5m KRW		
Below minimum income group	Tuition Fee: For those not granted full scholarship, 2.5m KRW, no interest Living expenses: 2m KRW limit, no interest		5.2 m
Income levels 1–3	Tuition Fee:	No interest	12.8 m
Income levels 4–5	7m KRW	4.0% interest subsidy	5.8 m
Income levels 6–8	Living expenses:	1.5% interest subsidy	4.6 m
Income levels 9–10	2m KRW limit	No interest subsidy	11.8 m

Source: *Korea's Income Contingent Loans* (MEST, 2010c).

As shown in Table 5, both the overall number of loans recipients and amount of loans has grown at a sharp rate between 2005/2 and 2009/2. Although participation rate in higher education was already at 65.2% upon implementation of SLBS, there were few objections to the expansion of student loans by universities, government officials and the public. The reason for this may be that the loans size in Korea is relatively smaller than that of other developed economies. With the introduction of SLBS in 2005, Korea's public subsidy for student loans as a percentage of total public expenditure on education was only 1.2%, whereas the average percentage for OECD member countries was 7.8% (OECD, 2010). In addition, equity in access to higher education was one of the key policy agendas of the Rho Moo-Hyun administration, and largely supported by the universities and general public.

Under SLBS, the total number of recipients rose by 82.1%, and the total amount of loans borrowed by 130% between the second semesters of 2005 and 2009. The proportion of loans disbursed to private HEIs has been consistent at approximately 90% during this period. With over 74% of college-aged students enrolled in private HEIs in Korea, it is not surprising that the majority of loans recipients (86.6% on average) were enrolled in private HEIs that charged tuition fees at 30–40% higher than those of public HEIs.

**Table 5: Loans Distribution by Number of Recipients, Amount of Loans, and HEI Type (under SLBS scheme)**

Year/ Semester	Public		Private		Total	
	No. of recipients	Amount of loans (million KRW)	No. of recipients	Amount of loans (million KRW)	No. of recipients	Amount of loans (million KRW)
2005/2	22,196	41,630	159,787	480,696	181,983	522,335
2006/1	34,404	72,903	221,823	760,198	256,227	833,101
2006/2	33,207	68,646	225,272	723,975	258,479	792,620
2007/1	41,673	100,189	266,872	995,539	308,545	1,095,728
2007/2	41,763	97,956	264,755	935,860	306,518	1,033,817
2008/1	44,688	116,340	282,576	1,128,735	327,264	1,245,075
2008/2	42,723	107,880	264,947	995,615	307,670	1,103,495
2009/1	46,703	123,348	297,727	1,197,166	344,430	1,320,514
2009/2	45,230	116,333	286,240	1,085,079	331,470	1,201,412

Source: *Student Loans Facts and Figures* (MEST, 2010d).

A gendered breakdown of the SLBS system implemented between 2005 and 2009 shows a slightly larger increase by 86% in the number of female loans recipients than the 78% increase for male recipients (MEST, 2010b), which denotes SLBS's potential to improve gender equity in Korean higher education. Female participation rates rose from 61.1% in 2005 to 68.1% in 2009, which is only 2.3% less than the increase noted in the participation rates for males (KEDI, n.d.). The high rate of Korean female participation in higher education can also be explained by the government's birth control plan implemented between the 1970s and 1990s, which offered various incentives to families to have no more than two children (Chae & Hong, 2009), giving rise to the tendency of parents to provide their children with equal opportunities regardless of gender. SLBS also appears to have contributed to the reduction of economic inequity as students from low-income household levels (basic level, levels 1–3) constituted 53.2% of the loans recipients between the second semester of 2005 and the second semester of 2006

(MEST, 2010b). The availability of SLBS significantly increased the likelihood of completing college within four years for students from families with an income of less than 2 million KRW per month (Kim & Rhee, 2008).

## **2010: Introduction of Income Contingent Loans (ICL)**

Student loans policy came under review in 2008 under the new Lee Myungbak administration that attempted to address the limits of SLBS. Although SLBS has been relatively effective in expanding student loans compared to the previous loan scheme, there were some drawbacks. First, the loan interest repayment under SLBS doubled from the previous loan scheme, as the interest rates were regulated by the banks unlike the mechanism adopted in the previous SIRLS. Second, there was a general concern that the default risk might increase following the rapid growth in the number of loans issued over a short time period (Kim, 2009). SLBS produced a five-fold increase in the number of defaulters between 2006 and 2007, and another four-fold from 3,726 to 13,804 between 2007 and 2009 (MEST, 2010c). While the size of loans under SLBS increased dramatically, the relatively short period for repayment resulted in the rise of default rates. In particular, unemployment resulting from the 2008 worldwide financial crisis also played a part in contributing to loans default. The sharp increase in higher education tuition fees also became the driving force for reform in loans policy. College students protested against the inflation of tuition fees that have risen by 8.1% and 6.3% in public and private HEIs, respectively, since 2000 (Ban, 2009).

The Korean government introduced Income-Contingency Loans in 2010 to partially remedy these issues. The main purpose of ICL is to enable students with financial difficulties complete their undergraduate studies by extending the repayment period. Unlike previous loans schemes, ICL does not rely on commercial banks for loans but is supported by the Korean Student Aid Foundation (KOSAF), affiliated to MEST. KOSAF issues the loans credit while the government guarantees the loans interest. Loans eligibility requires that the borrower is below

35 years of age, enrolled in college, and from a household with a monthly income level of 7 or below (4.8 million KRW). Additional academic criteria are a Grade B average or above in the previous semester and 12-credit hours completed. The rationale for the stringent loans criteria is to advance ICL's main equity goal in supporting students from low-income households to gain access to college, in addition to improving the likelihood of repayment (MEST, 2010c). As such, Korea's ICL scheme differs from that of Australia or the U.K. in that loans are needs-based and restricted to students with academic capabilities from disadvantaged backgrounds.<sup>1</sup> Loans repayment for ICL begins at a rate of 20% once the graduate's average income reaches the equivalent of a four-member household's minimum income (1.59 million KRW).

Although it is too early to assess the impact of ICL, statistical evidence supports the potential of ICL in contributing to the accessibility of Korea's higher education. The figures for the first semester of 2010 show that the total amount of loans was 1.48 trillion KRW for 395,387 cases, of which 28% was provided by ICL (MEST, 2010d). The number of loan cases has increased between 2009 and 2010 by 14.8%. At the institutional level, a greater proportion of borrowers come from private HEIs that constitute over 70% of HEIs in Korea, with higher tuition fees and four times more students than public HEIs (see Table 6).

ICL also appears to have improved social equity in higher education. At the household income level, borrowers from level 2 among the 10 levels comprise the majority of loans borrowers (20%) for the new scheme (MEST, 2010b). Borrowers from level 1 and below are offered grants (basic income level: 41,000 KRW; income level 1: 35,000 KRW) and, consequently, need to borrow a relatively small amount of loans (9.8%) to account for the discrepancy between grants and the total amount of money needed for college education (MEST, 2010b).

**Table 6: Student Loans Cases by Type of Loans (as of March 31, 2010)**

	ICL			SLBS			Total
	Four-year univ.	Two-year college	Total	Four-year univ.	Two-year college	Total	
Public	14,486	878	15,364	29,756	1,244	31,000	46,364
Private	55,667	38,395	94,062	152,150	69,346	221,496	315,558
Total	70,153	39,273	109,426	181,906	70,590	252,496	361,922

Note: 33,645 graduate students have been omitted from the figures above to make a comparison of student loans provided to undergraduates by university type.

Source: *Implementation of ICL in the First Semester of 2010* (MEST, 2010b).

## Policy Changes and Challenges

A review of the reforms in Korean student loans policies adds a unique experience to the body of literature on student loans and expansion of higher education. Since the end of the Korean War, the development of Korea's loan system has occurred at a dramatic pace concurrent with the rapid expansion of Korean higher education. While Korea's participation rates in higher education increased from below 6% in 1960 to 70.4% in 2009 (KEDI, n.d.), its student loans scheme has undergone several major reforms. The driving forces behind the reforms were social pressures to increase affordability of higher education for all, and the need to secure a sustainable funding mechanism corresponding to the increase of student loans. As Table 7 shows, several reforms of loans schemes have been implemented in response to these forces.

The common theme across the reforms in Korea's student loans policy is that each reform attempted to address the limitations of the previous loans policy in response to the increasing demand for higher education. For example, SLBS was introduced because student loans could not expand under the restricted public funding on which the previous loans (SIRLS) operated to guarantee loans interest. However, the relatively short loans repayment period of SLBS did not account for defaulters during unexpected financial crises, which subsequently led to

**Table 7: Major Student Loans Schemes in Korea**

	Subsidized interest rates loan scheme (SIRLS)	Student loan-backed securities (SLBS)	Income contingent loan (ICL)
Eligibility	- No interest: low-income, engineering students	- No interest: low-income, engineering students	- Undergraduates from household income below level 7
	- General low-income group: 2%	- General low-income group: 2%	- Graduates and undergraduates from level 8 or above apply for regular loans
	- General: 4%	- General: 6.95(7.0)%	- Grade B and above
	- Grade C and above	- Grade C and above	- Grade B and above
Loan type	Loan amounts	- Maximum: 20m KRW for all higher education fields - Per semester: tuition fees	- Maximum: 40m KRW for undergraduate studies; 60m KRW for graduate medicine - Per semester: tuition fees & living expenses
	Repayment	- Equal interest	- Equal principle and interest
Maximum repayment period	- Maximum 14 years: grace period (7yrs), repayment period (7yrs)	- Maximum 20 years: grace period (10 yrs), repayment period (10 yrs)	- Dependent on income level
Loan Mngt	Loan distribution	- Commercial bank	- Commercial bank
	Collection	- Commercial bank	- Commercial bank
	Government funding	- Interest subsidy	- Loans guarantee
	Funding source	- Bank	- Investment bonds through banks
	Guarantor	- Joint surety (parents) - Seoul Guarantee Insurance Co.	- Government

the introduction of ICL that tied repayment parameters to the borrowers' income upon graduation. At the same time, several differences characterize the uniqueness of each reform. As shown in Table 7, the reforms differ in the repayment parameters (tuition fees/living expenses), per student loan amount and repayment method. The trend across the reforms demonstrates an expansion in the scale of loans and an extension of the repayment period.

The developmental phase of each reform, however, has not occurred at an appropriate pace with the expansion of higher education in Korea. Until 1985, the government invested most of its resources in basic education to produce semi-skilled labor needed for industrial development, while the training of high-skilled labor was limited with student loans provided to less than 1% of the higher education participants. As a result, HEIs were unable to produce a sufficiently high-skilled labor force needed in the 1980s to advance the country towards a knowledge-based economy. Meanwhile, SIRLS, which was implemented in 1985, rapidly expanded after the 1997 IMF financial crisis and increased the rate of loans recipients from 3.7% in 1985 to 9.8% in the first semester of 2005. The impact of SIRLS on the expansion of higher education was enhanced by the 1998 University establishment and deregulation of numbers of student places policies, which allowed HEIs to expand their student intake. In addition, the educational fever of the Korean parents, irrespective of household income, has contributed to the rising demands for higher education (Seth, 2002; Nakamura, 2003, 2005). According to OECD (2007), Korea ranked first among the OECD member states on the proportion of private expenditure spent on educational institutions at all levels in 2004. As a result of these factors, the number of students in 4-year private universities rose by 67% from 1,133,000 in 1994 to 1,889,000 in 2006 (KEDI, n.d.). The loans size of SLBS, introduced in the 2nd semester of 2005, was much larger than SIRLS and appears to have contributed to the expansion.

As such, it is not only student loans policy, but also socioeconomic factors and higher education policy factors, which have affected the expansion of higher education. Taking this into consideration, there is a lack of relevance in the scale of student loans that has expanded since

the 1997 financial crisis to the expansion of higher education. The growth in loans size in the mid-2000s, when higher education participation rate exceeded 50%, only intensified credentialism and produced university graduates who were unable to repay their loans. In the same manner, the introduction of ICL in 2008 occurred at an inappropriate timing despite the fact that Korea had the highest participation rate (70.1%) in higher education. While ICL, a supplement to SLBS, eases the burden of interest payment for borrowers during the course of their studies, this can conversely increase the government's financial burden during prolonged periods of economic depression with high default and low recovery rates (Oh, 2009; Shen & Ziderman, 2009). While ICL is dependent on the borrower's ability to repay (Chapman 2006), with the existing high unemployment rate of 10% for youth and young adults (aged 15–29) in the Korean society partly due to an oversupply of college graduates (Statistics Korea, 2010), an increasing higher education enrollment rate is not a welcome phenomenon. In particular, although the enrollment rate of higher education for females is 82.4% (KEDI, n.d.), the employment rate of female college graduates is approximately 70% of the rate of male graduates (KEDI, n.d.), implying that the majority of female recipients of ICL may most likely default if they choose to stop working and become homemakers. These challenges indicate the need to consider not only aspects of a country's higher education system for the consolidation of loans system, but also the economic situation of the society, especially as related to employment (Salmi & Hauptman, 2006).

Overall, the Korean case shows the complex dynamics between reforms in the loans system and expansion of higher education in Korea. The interaction among the various factors — the relationship between the funding structure of higher education and private HEIs, the regulation on university establishment and deregulation of student quota, education fever, and economic conditions — has influenced the role of student loans policy on expansion of higher education. Korea's experience has several policy implications for developing countries looking to increase higher education opportunity in the midst of financial austerity to build the human capital needed for a knowledge economy. First, the size and target of loans need to be determined based

on the dependent relationship between the funding structure of higher education and private HEIs. In developing countries with a weak public financing system, the expansion of higher education is likely to be advanced through the establishment of private universities. The proportion of loans recipients is likely to be greater in private universities that charge higher tuition fees than in public institutions. When higher education funding is limited and reliance on private HEIs is high, one strategy of providing loans is to target high-performing, low-income students enrolled in academic majors directly related to economic growth to ensure higher education equity and efficiency of student funding (Johnstone & Marcucci, 2010). Second, it is important to link the expansion of student loans with an economic development of the nation. When a nation needs unskilled labor for the rapid industrialization of the economy, it should invest more in basic and vocational education than in higher education as Korea did. As the nation progresses towards a knowledge-based economy, however, it should increase investment in higher education to produce high-skilled human resources by means of student loans system. By effectively linking strategies for economic development and student loans policies, both the financial efficiency of student loans and higher education accessibilities can be improved. Third, it is necessary to expand loans based on the supply and demand of higher education graduates. With the tertiary enrollment rate of over 70% in Korea, the growth in loans funds has led to an over-supply of college graduates, producing a rise in the number of unemployed graduates. Therefore, while the loans system has contributed to a surge in the number of beneficiaries, its efficiency has gradually been declining. In conclusion, the Korean case demonstrates that the successful operation of a loans system consider not only the efficiency of loans management, but also various factors such as the higher education system, regulations on universities, and economic conditions of the country.

## Notes

1. In Australia, the eligibility criteria for ICL is that students should meet the citizenship and residency requirements, and have enough Student Learning Entitlement (SLE) to cover each unit in which the student is enrolled, unless the unit consists wholly of work experience in industry or forms part of an enabling course (Department of Education, Employment, and Workplace Relations, 2010). In the U.K., personal eligibility (basic residence requirements, previous studies) and the type of courses and colleges in which students are enrolled are some of the ICL criteria (Department for Innovation, Universities and Skills, 2009).

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