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## **Restructuring Student Loans: Lessons from Abroad - STUDY FINANCING IN GERMANY**

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### **1. Studying in Germany - Figures**

At the turn of the academic year 2014 / 2015, there studied 2.7 million students in Germany, 92% or 2.49 million students were enrolled at public universities, 7% or 180,000 at private universities and 2% or 60,000 at church and educational universities. About 1.7 million of them studied 2014-2015 at universities and 900,000 at universities for applied sciences.

Studying at public universities is free of tuition, tuition fees only have to be paid at 135 private universities.

The study duration amounts to 3 – 4 years for a bachelor (180 – 240 Credits) and 1 – 2 years for a master (60 – 120 Credits). To receive a master degree 300 Credits are necessary.

Currently about 80% of the students at the universities go immediately over from the bachelor in the master, in advanced technical colleges there are more than 50%.

### **2. Study financing in Germany – legal framework**

In Germany parents are legally obligated to finance the living and education costs of their children during study – even if the children are of age. Since the beginning of this year the monthly livelihood amount increased to 735 euro, health insurance and possible tuition fees (at private universities) also has to be financed by the parents. This is valid for both - a bachelor's study and a (immediately) connecting master's study.

If the parent's annual net income (after taxes) is too low, the national study financing system (German Federal Training Assistance Act – Bafög) substitutes the parental maintenance completely or partly to enable children from lower-income families to study. Currently more than 20% of all students are supported, 62% receive partial support of on an average 439 euro/ per month, so not the maximum amount of 735 euro per month.

However we know from our surveys that about 180,000 students receive from their parents no or insufficient base financing.

### **3. Study costs – Livelihood and education**

If one lays a bachelor's study of 3 years and a master study of 2 years and an education maintenance 735 euro per month, the parents provide 26,460 euro during a bachelor's study, 17,640 euro during a master study – all together 44,100 euro on for the living and the study costs.

Tuition fees are not increased in Germany at public universities since the end of 2014, but between 2006 and 2014 the public universities in 7 of 16 federal states might raise general tuition fees at the rate of 1000 euro per year.

On average students' disposable income is 864 euro per month, which they absolutely spend. In this respect the cost of living of a study can amount more than 50,000 euro.

#### 4. Sources of Study Financing

The study financing consists in Germany of different sources, for 2012 the following finance volumes arose all together:

- Parents 6. 30 billion €
- Scholarship 2. 15 billion €
- Salary from employment 3. 10 billion €
- Remaining 1. 62 billion €

#### 5. State Instruments of study financing

- **German Federal Training Assistance Act (BAföG)**

In 2014 a total of 646,000 students (24%) and annual average number of 425,000 students benefitted from the BAföG.

The public financial support consists of 50% in a grant and 50% in an interest-free loan which has to be paid back, dependent on the income. It is granted for the average period of study, usually for 10 semesters. The individual scholarship support amount varies between 10 and 735 euro per month. A scholarship full support (max. 735 euro) occurs up to a parent's annual net income of about 20,580 euro. From a parent's annual net income of about 38.004 euro, students receive no more public financial support.

The repayable loan is limited to 10,000 euro, also, e. g. in the case of the highest financial support (60 months, 735 euro per month and a total sum of 44,100), students only have to pay back 10,000 euro.

The repayment of the loan is also interest-free and begins 5 years after the end of the support. The monthly repayment rate amounts to 105 euro. The repayment occurs dependent on income from an income of 1.145 euro, for spouses / life partners plus 570 euro, for every child plus 520 euro. Higher income borders are possible with people with impediments or single parents. The maximum repayment duration is 20 years. On an untimely repayment one receives a discount according to repayment sum between 8% (500 euro) and 28.5% (10,000 Euro).

- **BAföG Bank Loan**

An exception is the BAföG bank loan for

- finishing the study which is given within 4 semesters after the average period of study,
- an extended study, caused by education termination or professional change of course
- another education (second undergraduate degree).

In these cases students can receive a loan by the reconstruction bank (KfW) in height of the individual BAföG support. 18 months after the payment phase they have to start with the repayment to the KfW in monthly rates of at least 105 euro.

- **Scholarships**

These scholarships are disseminated by 13 scholarship associations and achieving about 50,000 students which let expect special achievements in study and occupation by her talent and her ability. Students receive a basic scholarship from up to 670 euro per month which is calculated in support to the BAföG depending on own income and as well as from the income of the parents. In addition, they

receive a book money of 300 euro per month. The duration of the scholarship follows the average period of study. As a scholarship it is not paid back.

- **Germany Scholarship Program**

This scholarship program was created by the national government to win private investment into higher education and achieves 0.9% of the students.

The universities advertise with economy, alumni or private 150 euro per month, in 2015 about 87 million euro. The national government adds once again 150 euro per month. Students are supported for one year by 300 euro per month. A prolongation is possible, but it is as well limited by the average period of a study. One disadvantage: the scholarship is bound to the university. A combination with the BAföG support is possible.

- **Credit banks of the Student Services/Affairs**

The majority of the student affairs/services reproaches with a credit bank for bridging structure advance in hardship cases. Two people are mostly necessary to guarantee for the security of the interest-free loan.

- **State Education loan**

This loan achieves 1% of the students. It is given in 24 constant month rates of 100, 200 or 300 euro (a total of maximum 7,200 euro) to students (under 36 years old) during the last years of the full-time study at an university (limited by the 12th semester). the loan is given independently of income and independently of parent, in addition to BAföG and KfW-study loan. Securities are not necessary, the state sticks for failures. The loan is to pay back beginning 4 years after the first payment in monthly rates of 120 euro to the KfW. However, to begin it can be also paid back all or in part.

- **KfW Study loan**

Since 2006 the state bank for reconstruction (KfW) offers a study loan within the scope of her legal order, among other things educational financing. Here no deficiency guarantee of the state exists for need-based loans, hence, the volume also does not appear in the federal budget.

The loan can be taken by 18 to 44-year-old students in the first study and second undergraduate degree, in graduate studies as well as with the doctorate at a university in Germany. The grant of credit occurs without securities and is given independent of the income. Monthly loans are available between 100 and 650 euro. The erasure is adaptable and moderate. During the past years the assents rose in the KfW study loan of 25,000 in 2012 on 35,000 in 2014, following the product enlargements in 2013. The KfW study loan was extended, for second undergraduate degrees, master, additional studies, supplement studies and postgraduate studies. Here about the height of the monthly taken loans:

- 42% from 601 to 650 Euro
- 12% from 501 to 600 Euro
- 16% from 401 to 500 Euro
- 14% from 301 to 400 Euro
- 12% from 201 to 300 Euro
- 4% from 100 to 200 Euro

## **6.Total state expenditures in the study financing**

- **BAföG**

The issues amounted in 2014 to about 2.3 billion € of financial support for students, of it 1.2 billion € as a grant and 1.1 billion € as an interest-free loan, taken up with the KfW.

For interest and reimbursement of advance failures the state has paid 236million € to the KFW, because he lends the interest-free loan portion of the BAföG from the KFW.

Repayment on interest-free loans to the federal management office in 2015 totaled about 500 million Euro. The administrative costs of the federal management office amount to 2.34% of the repayments. All together about 4.27 million borrowers with a whole advance volume of about 23.67 billion euro are grasped.

The administration for the current financial support in 2014 amounts 1 million euro.

- **Scholarships**

For administration of scholarships the national government paid 190 million euro to the 13 associations.

- **Germany Scholarship Program**

The contribution of the national government to the program in 2015 was 48 million Euro.

- **State Education Loan**

In 2015, for the allowance of loan failures, the national government has paid 15.2 million euro to the KFW.

- **KFW Study loan**

The loan volume amounted to 1. 2 million euro in 2015 and was carried by the bank itself.

## **7. Indebtedness of the Students**

The students finance themselves in the essentials about achievements of the parents, the state study financing or from complementary employment. Hence, the indebtedness of the students is absolutely low.

Only 6% of the students take loans beyond the BAföG and the scholarship.

Among those, the monthly rates spread from 376 to 500 Euro and above all are taken by elder students over 28 years (11%) and first generation students (7.9%).

## **8. Interest Rates**

- The BAföG loan (50% of the financial support) is interest-free.
- The BAföG bank loan which is available in few special cases after the average period of study, usually is coupled to the 6-month EURIBOR interest rate plus of an impact of 1%. Currently the variable interest amounts 0.87%. Alternatively a fixed interest is available in a period between 1 and 10 years. For 10 years fixing currently the interest rate amounts 2.23%.
- The State Educational loan amounts 0.87% actually. He is also connected to the EURIBOR plus 1%.
- The interest rate for the KFW Study loan fixes the KFW itself. A variable interest actually amounts 4.16%. One also can choose a fixed interest for a period between 1 and 10 years. With a 10 years interest fixing one currently has to count with 4.61%.