Gov’t tightening grip on student loan repayment

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Students jubilate after their graduation last year. Students who benefit from the loan scheme are expected to repay within double the number of years of study. PHOTO BY Alex Esagala

In Summary

Almost six years after the students loan scheme was officially rolled out, only a handful of the first beneficiaries are paying back, calling for the Higher Education Students Financing Board to tighten the loose ends before it is too late

By Desire Mbabaali

In the 2014/2015 academic year, the government rolled out its students’ loan scheme under the Higher Education Students Financing Board (HESFB) with the aim of helping disadvantaged students access an education at institutions of higher learning.
Five years down the road, more than 8,000 students have benefited, 1,700 students completed their studies and will complete their one-year grace period in June after which, they are expected to start repaying the loan.

Ronald Zziwa is a third-year student pursuing Bachelors in Agriculture at Kyambogo University. For the past three years, he has been the coordinator of all students on the government loan scheme at Kyambogo University. He is engaged in running around the different colleges to get students registered, have their contact details, help them in case they have challenges and mediate between them and the administrators.

Now that he is done with his final examinations and will probably be graduating soon, the next challenge ahead of him is clearing his loan, which he estimates at around Shs6.5m. Good for him, he already has a plan.

"I am planning to start up a small agriculture project to earn me some money. I know other students need to benefit from the loan and I believe that within the one-year grace period given, for a person creative enough, I will start earning," he says hopefully.

Repayment plan

John (who prefers to be identified by only his first name) was among the first cohort of the loan scheme students that graduated in 2017, after completing his Bachelors of Industrial Chemistry degree at Makerere University. While still in his grace period, he was able to secure a job in quality assurance at Uganda Clays.

"I have, however, just started paying after settling on the job. I recently worked out a repayment plan. They will be deducting 15 per cent off of my salary at an interest rate of 4 per cent per annum. My loan is around Shs10m," he explains.

His plan is to increase the amount deducted per month to repay the loan when his income increases, and with this, he hopes to cover his loan before his time expires. According to HESFB, the repayment period is double the number of years of the study period. For example, if a student studied a three-year course, they would have six years within which to repay the loan in addition to a one year grace period.

What the loan covers

According to information on the board's website, the loan covers tuition and functional fees, aids and appliances for persons with disabilities, while research funds may be covered as and when the budget allows. It, however, does not cover meals, accommodation and other incidental welfare expenses of students on the scheme. The loan also does not cover students on government sponsorship or other scholarships.

After filling in the loan application form, applicants pay Shs52,200 as non-refundable loan processing fees and submit forms to any Centenary Bank Branch.

Hiccups in the system?

A few complaints have come from some beneficiaries (who prefer anonymity) of delayed payments to universities, causing them delays to receive their examination permits sometimes. When these were presented to Michael Wanyama, the executive director HESFB, he noted that most of the institutions they work with have not found that challenge.

"We sign MoUs with universities and disburse monies into their accounts in time and where we envisage a delay, write to them to enable our students access education and all other services. Whereas it is true that a few universities have had the issue, I cannot call this a challenge, because it is to only a few students," he said.

He additionally paints a picture on remittance of money to universities, saying this depends on whether the board has received previous students' results from the universities to show that the students are actually learning, and whether the student on the scheme has requested for the money, which they ought to do every semester while on the scheme because students can exit at any time.

Checks and balances

Out of Shs150m students who have completed their studies owe, the board has already recovered Shs78m from compliant students. However, there are various measures in place through which government hopes to recover the money.

“First of all, we take students through financial literacy, to show them the relevance of paying back so that other students can also benefit from the loan scheme,” Wanyama explains.

Additionally, all students on the scheme are registered with the Credit Reference Bureau, under the Bank of Uganda to be able to trace their credit worthiness. In the event that a student defaults on their loan, they cannot borrow money from any commercial bank since the banks will have information about their credit worthiness.

“We also insure these loans. We charge a student 1 per cent of the gross loan amount as loan protection fee. So, in case a student is given Shs4m, they pay Shs40,000 that is meant to indemnify the loan and permanent disability,” Wanyama adds.

Furthermore, HESFB is a statutory body such as NSSF and thus, takes priority over all other things someone has to pay, just like NSSF and pay as you earn. That way, the loan repayment money can be deducted from employed beneficiaries.

Employers alerted

The board has also signed a Memorandum of Understanding (MoU) with the Federation of Uganda Employers. “We had a workshop recently where we held conversations and briefed employers about their obligation, the obligations of students and our obligation because they play an important role in the loan recovery process,” Wanyama asserts.

According to the Higher Education Students Financing Act, 2014, every employer who employs a person whose loan is due for repayment, shall every month, deduct the amount specified by the board from the salary or income of that person for purposes of repaying the student loan.

“Where the employer or employee has not informed the board, an employer commits an offence and is liable on conviction to a fine not exceeding two hundred and forty currency points (Shs4.8m) or imprisonment not exceeding 10 years or both,” the Act reads in part.

However, in the same workshop, employers warned that with such provisions, there is a risk of denying potential candidates a job for fear of facing a jail term. They also questioned why they were not involved in framing the law and are now being informed at the recovery stage.

Penalties

Depending on the amount of income one gets, the law stipulates that a percentage not exceeding 30 per cent of the net salary or income of the employee should be deducted.

The law also stipulates that if a loan beneficiary defaults in repayment when the loan is due, the whole amount shall become due and payable and the loan beneficiary shall be bound to pay all other charges that may arise as a result of the default, including but not limited to the advocate’s fees and penalties.

Since the board had its first cohort graduating in 2017, all students who have so far graduated still have time within which to pay their loans, and thus, the board has not yet come face to face with loan defaulters.

The period
The student loan repayment period is double the number of years of the study period. For example, if a student studied a three-year course, they would have six years within which to repay the loan in addition to a one year grace period.
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