

## **Executive Summary**

The KfW Student Loan was introduced by KfW Bankengruppe in 2006 and is offered on a nationwide basis. Its purpose is to finance student's living costs during their time at university. The KfW Student Loan aims to enable all qualified school leavers to pursue university studies independent of their parents' financial support. Thus expanding access to study, the intention is to counteract social differentiation for students commencing studies. In addition, the KfW Student Loan aims to enable students to study more quickly, more efficiently and with greater focus, thereby increasing their prospects of successfully completing their course of study.

The KfW Student Loan is now well established in Germany as a financial instrument for students. Since its introduction in April 2006, around 95,000 loans have been issued; with some 21,600 KfW Student Loans accepted last year, 2010 marked a new peak. Almost five years after its introduction, this evaluation examines whether the KfW Student Loan has achieved its stated objectives and contributed to widening access to university and shortening the duration of study. The investigation was conducted by DIPF (Deutsches Institut für Internationale Pädagogische Forschung – German Institute for International Educational Research). As part of the evaluation, a survey was conducted among some 4,500 individuals who have received a KfW Student Loan. On the basis of the survey results, the social structure and the financial situation of the borrowers were analysed. The evaluation also examined the significance of the KfW Student Loan with regard to students commencing and successfully completing their studies.

### **Entry into the German higher education system**

- Compared to other countries, in Germany only a small proportion of those qualified to study actually enroll in university. In 2009, the proportion of students starting university rose to 43 %. However, the policy objective of the German government of 40 % was only achieved by including foreign first-year students. Provisional figures for 2010 indicate a ratio of 46 % for those starting their studies.
- Among the reasons for deciding against a course of higher education, financial motives predominate. Of those individuals who have the qualifications required but have no intention of studying, around three-quarters say they lack the financial means to go to university. Some 70 % state that they do not want to go into debt to finance their studies.
- Another important factor in deciding for or against university study is social background. In particular, those who are suitably qualified but come from low-income families in which

the parents themselves have often had no university education frequently decide against university and opt for vocational training in the dual system Furthermore, some 30 % of students still break off their studies and leave university without graduating.

- By far the greatest proportion of the individual costs of a university education in Germany is still borne by parents (an average of 48 % of monthly costs). Besides studying, the majority of students (65 %) also work in order to generate income. However, this paid employment often leads to an extended time spent at university. In many cases, students have to drop out of university due to prolonged financial difficulties.

### **The social composition of the student KfW borrowers differs markedly from that of the overall student population in Germany**

- Of the students receiving KfW Student Loans, 53 % are male and 47 % are female, which is consistent with the overall composition of students in Germany. The average age of borrowers still receiving payment is 25, which is six months above the average of all students. This age profile is attributable to the fact that 35 % of borrowers have already completed a course of vocational training before beginning their university studies (compared with 23 % of all students in Germany). The most important disciplines are Law, Business, Economics and Social Sciences (42 % of borrowers, as against 32 % of all students), Engineering (18 % as against 17 %), Languages and Humanities (16 % compared with 20 %) and Mathematics and Natural Sciences (11 % as against 18 %).
- The social composition of the student borrower group is markedly different from that of the overall population of students in Germany. Students receiving KfW loans are far less likely to belong to the highest social group (26 % compared with 35 %). The majority comes from families with middle-class (28 % as against 26 %) and upper middle-class (29 % as against 24 %) backgrounds.
- Also, students with parents of comparatively low socio-economic status are more likely to be found amongst students taking KfW loans than in the totality of students in Germany (18 % compared with 15 %). In terms of socio-economic background, this picture conforms to the intended target group composition.
- Around 10 % of borrowers come from an immigrant background. This roughly conforms to the proportion found among the overall population of students in Germany (11 %).

## **The KfW Student Loan plays an important role in commencing studies**

- Those surveyed indicated that the KfW student loan played an important part in their studying at university. Over 86 % of those receiving KfW Student Loans expressed the view that without this loan, they would not have been able to study. 57 % went so far as to say that they 'strongly agreed' with this statement. Grouped according to social background, borrowers from the three lower categories ('upper middle', 'middle' and 'lower') agreed with this statement more strongly than borrowers from the 'upper' social class.
- Even students who had already completed a vocational training course – and these represent 35 % of all borrowers – said that the KfW Student Loan was very important for their studies. As many as 63 % of these borrowers agreed with the statement that they would not have been able to study without the KfW Student Loan.

## **Financing patterns: students taking KfW loans receive significantly less parental financial support**

- Students receiving KfW student loans have an average monthly income of EUR 976, which is around EUR 150 above the 2009 average monthly income of all German students. There is scarcely any difference here between the various social groups, nor between those students who have completed prior vocational training and those who have not. However, monthly incomes do vary according to borrower age. For example, the monthly income of borrowers aged 30 or over stands at EUR 1,027 whereas the income of 22-23 year-olds is EUR 941.
- 57 % of KfW borrowers receive financial support from their parents. This is 30 percentage points lower than the figure for the total student population. At the same time, the average financial contribution made by parents of students taking KfW loans stands at EUR 273, whereas the average for all students comes out at EUR 445. Thus on average, students taking KfW loans receive funding from parents less frequently and also in lower amounts than students overall.
- Amongst students taking KfW loans, the contribution made by parents to the students' overall monthly finances works out at an average of 16 %. In comparison, amongst all students, the average parental contribution amounts to 48 %.
- 25 % of KfW student loan borrowers receive government student funding support (BAföG). BAföG funding accounts for 9.5 % of total income for student borrowers, whereas for all students it comes out at 14 % of average monthly income.

- The proportion of monthly income funded by the KfW Student Loan and the proportion funded by earned income both increase with the age of the borrower. The KfW loan accounts for 47 % of monthly financing among student borrowers up to 21 years of age, whereas it runs to 51 % for those aged over 30. At the same time, the contribution from earned income in the respective age groups climbs from 15 % to 24 %, whilst the parental contribution falls from 24 % to 10 %.
- The contribution from the KfW Student Loan to total finances amounts to an average of 49 %, and shows little difference between the various social groups. Borrowers receive an average of EUR 482 from KfW. Hence, across all social classes and age groups, the KfW Student Loan is mostly used to meet basic financial requirements. It is less used for covering smaller or short-term needs that may arise during the student's time at university.

### **Students receiving KfW loans take less paid employment during their studies**

- Students receiving KfW loans spend less of their time working in paid employment than students overall. Among student borrowers, a similar proportion (67 %) work part-time as students overall (65 %). However, the contribution of these earnings to their monthly finances is, on average, lower than for students overall. Among those borrowing from KfW, 20 % of monthly income is generated through paid work (EUR 296), as against 29 % for students overall (EUR 323); this implies that, on average, they work shorter hours than the total student population in Germany.
- The results are particularly striking for older students. For example, 73 % of KfW borrowers in the 26–27 age group work part-time whilst studying, and earn an average of EUR 308 per month. The figure in the corresponding age group for all students is 79 %, with a monthly income of EUR 403. This difference is much more marked in the '30 and above' age group with a percentage of 74 % and EUR 329 per month for students with loans as against 81 % in the corresponding group from the total student population, who earn an average of EUR 618 per month. Thus borrowers in this age group with part-time employment work only around half as many hours. Given the reduced amount of time spent in part-time work, it is reasonable to assume that students taking KfW loans have more time available for their studies.
- Around 53 % of borrowers working as well as studying 'strongly agreed' with the statement that, despite receiving a student loan from KfW, they also needed to work. A significantly higher proportion of those agreeing came from the 'upper middle' social group.

- Borrowers who worked differed in their assessment of the impact of that employment on the duration of their studies. Around 56 % of students in receipt of KfW Student Loans were of the opinion that having jobs would extend the length of time spent at university. On the other hand, around 44 % were of the view that part-time employment would have no influence on the duration of their studies. The average amount of part-time working was similar in both groups.
- As so far only a relatively short time has elapsed since the introduction of the KfW Student Loan, the sample size of student borrowers who have already completed their studies is relatively small. Preliminary results show no difference in the length of time spent at university between students who received the KfW Student Loan and the overall population of graduates in Germany. This holds also for different qualification levels (e.g. first or postgraduate degrees) and for the various study disciplines.

### **Broad general approval for the product design of the KfW Student Loan**

- The overwhelming majority (86 %) of those receiving KfW Student Loans regard their means of subsistence as secure. There is no differentiation between social classes, age groups or study disciplines. The KfW Student Loan is making an important contribution in this area.
- Three-quarters of borrowers considered the maximum funding period (14 semesters) to be adequate. 55 % of borrowers deemed the monthly maximum payment of EUR 650 to be appropriate; 32 % of students would – if possible – opt for a higher amount. Overall, the KfW Student Loan achieved an exceptionally high approval rating amongst those surveyed. Over 90 % of those receiving KfW student loans expressed their satisfaction with the offer, and as many as 30 % were ‘very satisfied’.

The evaluation of the KfW Student Loan has shown that the product meets with widespread approval. Moreover, the loan has reached the student groups which KfW had targeted: the middle and lower social groups. Another positive result of the survey is that with the KfW Student Loan students are actually reducing their amount of part-time work, and are therefore able to concentrate more closely on their studies.